

CRS Report for Congress

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North Korea-Japan Relations: The Normalization Talks and the Compensation/Reparations Issue

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Summary

Japan and North Korea have not established official relations since North Korea was founded in 1948. In 2000, the two countries held three rounds of normalization talks, which had been frozen since 1992. The talks, however, have been stalled since November 2000. One of Pyongyang's key demands is that Tokyo compensate North Korea for Japan's colonization of the Korean Peninsula from 1910-1945. Though Japan has resisted using terms such as "compensation" and "reparations," Tokyo has offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965. North Korea, however, insists that it will only accept "compensation." This disagreement over terminology has contributed to the current deadlock in the normalization negotiations.

The 1965 Japan-South Korean settlement consisted of a \$300 million grant, \$200 million in low-interest long-term government loans, and \$300 million in private credits from Japanese financial institutions. There are a number of estimates for the present value of the 1965 Japan-South Korea settlement, ranging from as low as \$3.4 billion to over \$20 billion. One methodology that adjusts for inflation in Japan and for inter-Korean population differences yields a 1999 value of approximately \$3.8 billion. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion.

This report will be updated periodically to track developments in the Japan-North Korea normalization talks.

Background

In the fall of 1999, William Perry, Special Advisor to the President on North Korea, unveiled a new strategy for halting North Korea's nuclear weapons and long-range missile

programs.¹ One of the “carrots” in the United States’ policy appears to be a prospective large-scale economic assistance package, conditional upon North Korea’s cooperation.²

It is widely believed that one of the largest source of economic aid to Pyongyang would come from a prospective Japanese offer of monetary “compensation” for its colonization of the Korean peninsula in the first half of the 20th Century.³ To this end, South Korea and the Clinton Administration – the former under its so-called “sunshine policy” toward North Korea – urged Japan to reduce tensions with North Korea.⁴ Tokyo and Pyongyang have not established official relations since North Korea was founded in 1948. North Korea insists that before it will establish relations with Tokyo, Japan must provide an apology and monetary compensation to resolve Japan’s past treatment of Korea.⁵ Japan has agreed in principle to offer an economic package to North Korea, but has been vague about its amount, form, timing, and characterization.

In 2000, North Korea improved relations with all the major countries in Northeast Asia, with the exception of Japan. Most dramatically, South Korean President Kim Dae Jung and North Korean leader Kim Jong-il held the first-ever inter-Korean summit meeting in mid-June. The two leaders pledged to take steps toward an eventual reunification, including setting up economic cooperation projects between the two Koreas. Two weeks before the summit, Kim Jong-il traveled to Beijing, his first trip to China since the death of his father and predecessor, Kim Il-Sung, in 1994. Shortly after the summit, the U.S. lifted most of its remaining economic sanctions on North Korea. In July 2000, Russian President Vladimir Putin visited North Korea, signaling a thaw in Moscow-Pyongyang relations, which have been icy since the Soviet Union established relations with South Korea in 1990. These diplomatic moves by North Korea have placed even greater pressures on Tokyo to improve relations with Pyongyang.

The Japan-North Korea Normalization Talks - Issues and Chronology

Disagreements over the Economic Settlement Package. Regarding the size of Japan’s economic package to North Korea, official figures have not been released by either side, though Pyongyang reportedly has demanded \$10 billion at minimum. Some Japanese experts believe that North Korea will ask for a settlement in the \$20 billion range. According to Japanese North Korea-watchers, no consensus has been reached in Tokyo

¹ See William J. Perry, “Review of United States Policy Toward North Korea,” Unclassified Report, October 12, 1999, available at [http://www.state.gov/www/regions/eap/991012_northkorea_rpt.html].

² “Japan’s Approach to DPRK Viewed,” *SISA Journal*, November 18, 1999, translated by the Foreign Broadcast Information Service, FTS19991128000519.

³ Marcus Noland, “The Economics of Korean Unification,” prepared for *Foresight Magazine*, February 2000, available at [<http://www.iie.com/TESTMONY/foresigh.htm>]. Victor Cha, “DPRK Dialogue,” *Comparative Connections*, 4th Quarter 1999, [<http://www.csis.org/pacfor/cc>].

⁴ “Seoul Urges Tokyo to Compensate Pyongyang for Colonial Rule,” *Korea Herald*, May 7, 1999. For a detailed discussion of South Korea’s sunshine policy, see Rinn-Sup Shinn, *South Korea: “Sunshine Policy” and its Political Context*, CRS Report RL30188.

⁵ See, for example, “Text of North Korean Government Statement Against Japan,” *BBC*, August 13, 1999.

on Japan's bottom line, though there have been reports that Japanese officials are discussing a package on the order of \$5-\$10 billion. According to one report in the Japanese press, Japanese officials in October 2000 were considering a \$9 billion package.⁶ Observers suggest that Tokyo will argue that \$2 billion be deducted from the final amount in order to give Japan credit for its \$1 billion contribution to the Korean Peninsula Energy Development Organization (KEDO) and the \$1 billion North Korea owes Japanese sources (mainly Japanese banks) from unpaid debts incurred in the 1970s and 1980s.⁷

In addition to the size of the settlement, the two sides have clashed over terminology. Japan is refusing North Korea's demand that the package be labeled as "reparations," or even "compensation." Instead, Tokyo has offered to characterize the monies as "economic assistance," as it did in the 1965 Japan-South Korean normalization negotiations.⁸ This semantic dispute has momentarily stalled the talks. Other issues likely to be contentious include the conditions placed on Pyongyang's use of the aid/reparations, and the composition of the money – grants or loans.⁹ Additionally, North Korea is demanding that Japan issue a formal, "legally binding apology" from the Japanese emperor and/or prime minister. Japan has countered that a sufficient apology was extended as part of 1995 statement by then-Prime Minister Tomiichi Murayama expressing regret for Japan's past actions.

Other Contentious Issues. Any normalization agreement will be politically difficult for the Japanese government. In recent years, relations with North Korea have become a high-profile political issue in Japan, due to North Korea's 1998 Taepodong missile launch over Japan, its 1999 naval incursion into Japanese waters, and the release of new (albeit unconfirmed) evidence that Pyongyang kidnapped Japanese citizens in the 1970s and 1980s.¹⁰ Public opinion polls indicate that most Japanese favor adopting a cautious approach toward North Korea.¹¹ Conservative groups in Japan – including many members of the dominant Liberal Democratic Party – opposed the government's decisions in March and October 2000 to resume shipments of food aid to North Korea, arguing that Japanese assistance should be conditioned on Pyongyang's cooperation on the abduction cases and on missile and nuclear weapons issues.¹² An additional concern expressed by

⁶ Tokyo Shimbun, October 26, 2000.

⁷ Author's conversations with Japanese North Korea experts following CRS Workshop, "Dealing with North Korea," March 2, 2000; see also Cha, "DPRK Dialogue."

⁸ "Kono Confirms Offering Economic Cooperation to N. Korea," *Kyodo*, August 25, 2000. Japan's position is that since it has never been at war with North Korea, it is not required to pay reparations.

⁹ Cha, "DPRK Dialogue."

¹⁰ For more on how the North Korea threat has caused many Japanese policymakers to rethink Japan's defense posture, see Richard Cronin, *Japan's Changing Security Outlook*, CRS Report RL30256, July 9, 1999. See also Rinn-Sup Shinn, *North Korea: A Chronology of Provocations, 1950-2000*, March 15, 2000.

¹¹ According to a 2000 poll, only 36% of Japanese surveyed believed Japan should resume food aid to North Korea, compared with 51% in August 1997. *Mainichi Shimbun*, February 27, 2000.

¹² On March 7, 2000, Japan announced its intention to deliver 100,000 tons of rice to North Korea, (continued...)

these groups is that Japanese compensation or food aid might be used for North Korea's military rather than for its populace. During the April 2000 talks, the Japanese delegation also raised the issues of North Korea's alleged drug-trafficking, and its alleged biological and chemical weapons programs.

The 9th Round (April 2000). In the April 2000 Japan-North Korea talks, North Korea insisted that relations be normalized only after completing a "settlement of the past," a phrase Pyongyang defines to include four items: an apology, compensation, the return of cultural assets taken from Korea during the occupation, and the granting of legal status to ethnic Koreans living in Japan. For future negotiating rounds, North Korea proposed establishing panels to deal with other outstanding issues, including Pyongyang's missile development program and the whereabouts of ten Japanese allegedly kidnapped by North Korean agents. Japan, seeking to avoid decoupling the compensation/apology issue from the kidnapping and missile disputes, rejected the North Korean proposal.

The 10th Round (August 2000). On July 26, 2000, the Japanese and North Korean Foreign Minister staged an unprecedented meeting at the ASEAN Regional Forum meeting in Bangkok. The two officials agreed to hold another round of talks in Tokyo in August. They also agreed to resume discussions over further visitations to Japan by women who married Korean husbands and emigrated to North Korea.

At the August 21-24, 2000 bilateral meetings in Japan for the first time formally raised the possibility of providing an economic assistance package – *i.e.* not a compensation payment – to North Korea. Reportedly, no figures were discussed, and North Korea did not respond to the offer. The two sides agreed to hold another round of talks in a third country in October, with a goal of establishing diplomatic ties by the end of 2000. The negotiators also agreed to expand bilateral contacts to include politicians and business enterprises, and to set up committees to handle two of North Korea's demands: the return of cultural treasures taken from Korea during the Japanese occupation, and improving the legal status of Koreans living in Japan. Reportedly, North Korea asked Japan to resume trade insurance and full-scale economic aid, but Japanese negotiators declined.

The 11th Round (October 2000). Almost no progress was achieved during the October 30-November 1, 2000 bilateral meetings in Beijing. Reportedly, North Korea flatly rejected Japan's proposal to offer economic assistance in lieu of compensation. Japan again turned down North Korea's demand that the abduction issue be discussed outside the normalization talks. A sign of the deadlock is that the two sides did not set a date for the next round of talks.

Japan's 1965 Economic Aid Package to South Korea

On June 22, 1965, Japan and South Korea signed a Treaty of Basic Relations, normalizing relations between the two countries for the first time since Japan annexed the

¹² (...continued)

its first shipment since the food aid program was suspended following Pyongyang's launch of a two-stage Taepodong missile over Japan in August 1998. In October 2000, Japan announced it would send an additional 500,000 tons of rice aid to North Korea.

Korean peninsula in 1910. As part of the final settlement, Japan agreed to provide South Korea with a total sum of \$800 million¹³, which consisted of: a) an outright grant of \$300 million, to be distributed over a 10-year period; b) a \$200 million loan to be distributed over a 10-year period and repaid over 20 years at 3.5% interest; c) \$300 million in private credits over 10 years from Japanese banks and financial institutions.

Prior to the 1965 agreement, the normalization negotiations between Tokyo and Seoul had dragged on for over fourteen years, and had triggered strong emotions in both countries. Throughout the 1950s, South Korean President Syngman Rhee adopted a confrontational approach toward Japan, and successive Japanese governments showed little enthusiasm for accepting Rhee's demands that Japan apologize and compensate for its colonization of the Korean peninsula.

Relations warmed dramatically following a military coup in 1961, led by general Park Chung-Hee, who established rapid industrialization – following the Japanese model of export-led development – as his country's paramount economic goal. To this end, Park was eager for Japanese economic assistance, and adopted conciliatory postures on most outstanding issues. The approximate size and composition of the compensation package was one of the first issues to be resolved following Park's coup. The South Korean side, which at one point had asked for as much as \$2 billion, lowered its demands to \$700 million in grant aid before agreeing to the \$800 million total package. Reportedly, until late 1962, Japan had offered only \$70 million in total compensation, a figure the U.S. State Department at the time described as “unrealistically low.”¹⁴ Furthermore, the Treaty on Basic Relations did not contain any reference to a Japanese apology. Instead, Japan's reparations payment was characterized as “economic assistance.”

The terms of the Treaty enraged many South Koreans. Charging that the agreement amounted to a “sellout,” Korea's opposition parties boycotted the ratification process in the National Assembly. Violent anti-government protests erupted throughout the country, and the Park government imposed martial law to suppress anti-government protests around the country, the second time in less than a year troops were mobilized to curtail protests against the government's Japan policy. The agreement also faced strong but eventually ineffectual opposition in Japan, where the Socialist Party – which had friendly ties with North Korea – argued that the Treaty would impede Korean unification and was a prelude to an anti-communist alliance in Asia.¹⁵

Estimating the Present Value of the 1965 Settlement

There are a wide range of estimates for the present value of the 1965 Japan-South Korea settlement. At the low end is a method that adjusts for inflation in the U.S.

¹³ According to the South Korean Ministry of Foreign Affairs and Trade, the aid was distributed in dollars, not yen.

¹⁴ *Foreign Relations of the United States, 1961-1963, Volume XXII (Northeast Asia)*, 567-69; Chong-Sik Lee, *Japan and Korea: The Political Dimension* (Stanford, CA: Hoover Institution Press, 1985), 50.

¹⁵ Lee, *Japan and Korea*, 55.

economy, yielding a value of approximately \$3.4 billion in 1999 dollars.¹⁶ At the high end is a calculation that produces a value of \$20 billion in today's dollars by adjusting for inflation in the Japanese economy, appreciation of the yen, accrued interest, and differences in population in North and South Korea.¹⁷ One methodology that adjusts for Japanese inflation since 1965 and for inter-Korean population differences yields a present value of ¥418 billion (\$3.8 billion using an exchange rate of ¥110 = \$1). If the same disbursement formula used in 1965 were applied today, the ¥418 billion would break out as ¥157 billion (\$1.42 billion) in outright grants, ¥104 billion (\$950 million) in concessionary government loans, and ¥157 billion (\$1.42 billion) in private credits.¹⁸

The above figures should be interpreted as rough approximations. Computing the present value of a past sum is an inherently inexact task. When more than one country is involved, the calculation is made even less precise by long-term changes and short-term fluctuations in exchange rates. Additionally, an exact calculation would take into account differences between North Korea and South Korea, including the extent of the claims for damage by the Japanese occupation. Finally, the adjustments are made for the total figure of \$800 million, even though the actual value of Japan's compensation package was lower: Over 60% (\$500 million) of the settlement was disbursed as government loans and private credits, which are less valuable to the recipient than outright grants. Thus, the calculations presented, although providing a preliminary comparative baseline, tend to overstate the present value of Japan's settlement with South Korea.

On the other hand, the 1965 settlement occurred before the revelation that Japan had forcibly used tens of thousands of Korean "comfort women" to provide sexual services to Japanese soldiers during World War II. North Korea is insisting that Japan's compensation take into account the comfort women's plight, a demand that (if it is met) presumably would raise the value of the settlement package.¹⁹

¹⁶ This method uses the U.S. gross domestic product (GDP) deflator to adjust for inflation between 1965 and 1999. The GDP deflator is the ratio of nominal GDP in a given year to real GDP in that same year. In 1999 the GDP deflator was 104.37 (1996 = 100), 4.35 times the 1965 deflator of 23.98. Thus, \$800 million in 1965 dollars would be worth approximately \$3.4 billion in 1999 dollars.

¹⁷ Noland, "The Economics of Korean Unification." For his accrued interest adjustment, Noland assumes an annual rate of return of 5%. Noland acknowledges that the Japanese side is likely to reject the notion of adjusting for accrued interest, on the grounds that North Korea's intransigence is to blame for the perennially stalemated normalization talks. March 2000 conversation between Marcus Noland and the author. According to the U.S. Census Bureau, in 1965, North Korea's population was approximately 11.9 million, approximately 40% the size of South Korea's population of 28.7 million in the same year. In 1999, North Korea's population was estimated to be 21.4 million, around 45% the South Korean total of 47 million.

¹⁸ This method uses the Japanese GDP deflator to adjust for inflation between 1965 and 1999. In 1999 the Japanese GDP deflator was approximately 3.5 times the size of the deflator in 1965. Using this figure, the 1965 compensation package of ¥288 billion would be worth roughly ¥1.01 trillion today (\$9.2 billion, at ¥110 = \$1). To adjust for population differences, multiply ¥1.01 trillion by 0.41, which is the ratio of North Korea's 1965 population (11.9 million) to South Korea's 1965 population (28.7 million). The result is ¥418 billion (\$3.8 billion).

¹⁹ *Yomiuri Shimbun*, April 8, 2000.

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Japan-U.S. Relations: Issues for Congress

SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. The desire of the George W. Bush administration to deepen and strengthen U.S.-Japan strategic relations has caused Japanese analysts and officials to have expectations of a positive shift in the triangular U.S.-Japan-China relationship, but also concern about possibly becoming involved in an explicitly anti-China security posture.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade, U.S. foreign policy, ballistic missile defense (BMD), and regional security issues. The latter include North Korean nuclear and missile proliferation, China's emergence as a potential U.S. military adversary, and U.S. military bases in Japan, whose importance has been underscored once again in the anti-terrorist campaign in Afghanistan.

Some analysts both here and in Japan question whether the three-party coalition government in Tokyo led by Prime Minister Junichiro Koizumi is ready for a closer U.S. embrace, especially in regard to security cooperation. However, the Koizumi government has succeeded in gaining parliamentary approval to send Japanese ships to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. Because of a constitutional ban on offensive military action not strictly for self-defense, Japanese ships will be restricted to non-combat support and intelligence collection.

Due to its own concerns about North Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense

capabilities even as it increases cooperation with the United States under revised defense cooperation guidelines that were agreed to in September 1997. Japan also has committed to participate in joint research and development of a theater-range missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit fell from a high of \$65 billion in 1993 to \$47.6 billion in 1996, but then rose sharply again, reaching a record \$73.9 billion in 1999. A major factor in the trade deficit has been the sluggish Japanese economy. As of late-2001, indications are that the Japanese economy is in a recession again after a brief period of modest growth, due to lagging demand and investment.

In response to the rising trade deficit, the Clinton Administration repeatedly urged Japan to adopt initiatives to stimulate and deregulate its economy and threatened or imposed anti-dumping tariffs. The Bush Administration has paid somewhat less attention to the trade deficit, while encouraging Japan to follow-through on structural reforms and measures to attack Japan's enormous stock of bad loans.

Congress has reacted critically to alleged steel dumping by Japan, and the 106th Congress enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured by dumped and subsidized imports. Japan's objections to U.S. anti-dumping laws and U.S. complaints about Japanese agricultural protectionism have been key issues of contention in WTO negotiations on the issues to be included in a new round of global trade negotiations.

MOST RECENT DEVELOPMENTS

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, where they will provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla consisting of four destroyers, two fleet oilers, and possibly a minesweeper (to ferry supplies) that the Japanese government will send to the region under a “basic plan” that is expected to receive cabinet approval on November 16. The plan, which will be limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia. The ships will not be allowed to transport weapons or ammunition. Also, due to objections from within the ruling coalition, it remains unclear whether the government will send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States has informally requested.

On November 14 the Japanese government decided to send \$300 in grant emergency aid to Pakistan covering refugee relief and other needs for a period of two years—a quantum increase over the \$40 million committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Additionally, Japan will join the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20.

The ruling coalition parties agreed on November 15 to support legislation that would modify the rules of engagement for Japanese forces involved in peacekeeping missions to permit the use of arms to protect friendly forces, relief workers, refugees, civilians under their protection, and their own weapons and equipment. Current rules allow the use of weapons only in self-defense. This change is intended to allow Japanese forces to play a future peacekeeping role in Afghanistan.

BACKGROUND AND ANALYSIS

U.S.-Japan Cooperation and Interdependence

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan’s most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. It also supports an American strategic role in the Pacific.

Japanese leaders and press commentators generally welcomed the election of George W. Bush, with many commenting favorably on indications that the next administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. A number of commentators expressed caution, however, noting that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administration's bid for closer security cooperation and coordination.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. The end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance within both the American and Japanese publics. After a period of strategic uncertainty in both countries over how to respond to the post Cold War situation in East Asia, leaders on both sides saw their interests as best served by strengthening the U.S.-Japan alliance to support their respective strategic interests in the region.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi held a summit meeting at the Camp David presidential retreat on June 30, 2001. President Bush indicated strong support for the Japanese Prime Minister's economic and financial reform program, while Prime Minister Koizumi couched his concerns about the Administration's abandonment of the Kyoto Treaty and its ballistic missile defense program in positive terms.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. Prime Minister Koizumi has carried out a generally successful struggle to gain enough political maneuver room to keep Japan relevant to the U.S.-led anti-terrorist campaign. His efforts have been partially sabotaged by the pacifist-inclined New Komeito, a coalition partner, as well as old guard elements in his own Liberal Democratic Party (LDP) who don't want to jeopardize the fragile coalition or, it would seem, give Koizumi too much independence. Japan's response appears guided both with a view towards the perceived seriousness of the threat to Japanese interests and a peaceful international order, and in reaction to past criticism of Japan for not providing direct support to the U.S.-led coalition during the January-March 1991 Gulf War against Iraq.

The New York attacks especially shocked Japan, which had a large commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. On September 12, 2001 (Japanese Time), Japanese Prime Minister Junichiro Koizumi held a post-midnight press conference in which he denounced the terrorist attacks in New York and Washington. He convened an emergency National Security Council meeting that formulated initial measures to provide support for the United States, including increased bilateral anti-terrorism cooperation. Prime Minister Koizumi called the attacks "cowardly, outrageous, and reckless" in message to President Bush. The terrorist attacks also gave new urgency to an ongoing political debate about Japan's future defense posture.

On October 16, 2001, a special committee on anti-terrorism measures of the lower house of the Japanese Diet (parliament) agreed to two draft bills that would give unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to "show the flag" in a non-combat role in support of U.S. and allied military operations in the Indian

Ocean area. Legislation valid for a period of two years will allow the SDF to provide “rear area” support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. Notably, in light of Japan’s continuing struggle to balance the terms of its “no-war” constitution with U.S. expectations, Maritime SDF vessels will be able to transport arms and ammunition to U.S. forces by sea, but in a concession to the opposition Democratic Party, overland transport of lethal items to U.S. forces remains forbidden. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on “collective defense” activities.

On October 5 the Washington Post reported that the Japanese government had agreed to a U.S. request that it quadruple planned emergency aid to Pakistan, up to a total of \$160 million. Also, on October 6, Japan despatched six C-130 military transport aircraft to Pakistan carrying relief supplies for Afghan refugees, including tents and blankets, and 140 Air and Ground Self-Defense Force personnel.

The terrorist attacks dealt a further blow to hopes for reviving the Japanese economy. Mid-fiscal year reports released in early September already had contained uniformly gloomy news of an unprecedented decline in GDP, rising unemployment, still falling consumption and investment, and still rising bad loans. Stocks fell more than 6% in the wake of the terrorist attack, taking the Nikkei Index down to a level not seen since 1984.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China’s rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate—as at present. Japan’s own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan’s concerns about China’s rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan’s past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan’s war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy.

Recently, Tokyo and Beijing also have engaged in trade confrontation. In response to Tokyo’s imposition of anti-dumping tariffs against certain Chinese agricultural exports, China has imposed 100% duties on Japanese exports of autos, cell phones, and air conditioners.

Sino-Japanese relations appear to have taken an upturn as a result of Prime Minister Koizumi’s visit to Beijing on October 8, 2001. Koizumi appeared to satisfy his Chinese hosts by visiting the Marco Polo Bridge, near Beijing—the site of a manufactured incident that triggered Japan’s 1937 invasion of China—and conveying the fullest apology for past wrongs ever delivered by a Japanese Prime Minister.

Differing Korean Peninsula Priorities. The United States and Japan share the same broad objectives regarding the unstable Korean Peninsula, but Japanese officials frequently have expressed a feeling of being left out of U.S. decisionmaking. Japanese

policymakers appear torn between a desire to move slowly and deliberately on normalizing relations with North Korea, but they also worry about becoming isolated from U.S.-South Korea-North Korea diplomacy. Tokyo agreed reluctantly under pressure from the Clinton Administration to commit to pay about \$1 billion towards the construction of two light water nuclear power reactors for the North under the October 1994 U.S.-North Korea "Agreed Framework," but only agreed to provide food aid to North Korea in October 2000, after a five-year suspension.

From time to time Japanese leaders have shown anxiety over the possibility that U.S. negotiators would ignore Japanese concerns about the threat from North Korea's short-range "Nodong" missiles and the fate of some 10 Japanese citizens allegedly kidnapped by North Korean agents during the period 1977-1980. Japanese officials and commentators have welcomed indications that the Bush Administration is moving more cautiously and slowly in normalization discussions with Pyongyang, and is perceived to be paying close attention to Japanese concerns.

Japan has tried in part to compensate for sometimes feeling "left out" of U.S. policymaking towards the Korean Peninsula by itself drawing closer to the South Korean government headed by President Kim Dae Jung. The high point of this effort was South Korean President Kim Dae Jung's state visit to Japan in October 1998, during which Tokyo issued its first ever written apology for its past treatment of Korea. Recently, however, Japan-South Korea relations have been buffeted by the same issues arising out of Japan's wartime past that have afflicted Sino-Japanese relations. A visit to Seoul by Prime Minister Koizumi in early October 2001 was marred by anti-Japanese demonstrations and failure to resolve a sensitive fishing issue. Reportedly, South Korean President Kim offered no objection to Japan's plans to provide logistical support to the U.S. military campaign against the Taliban regime in Afghanistan and the forces of Osama bin Laden, but also urged Koizumi not to alter Japan's constitution.

Trade, Deregulation, and Financial Issues. Japan began in late 1998 to address a number of serious financial and economic problems that have also induced strains in U.S.-Japan relations, but the overall results have been disappointing to U.S. policymakers. The Japanese Diet passed a bank reform program in October 1998. The government unveiled a series of massive fiscal stimulus packages to stimulate the economy, temporarily boosting economic growth but also causing Japan's public debt to soar. U.S. confidence in Japan's reform program fell markedly after Prime Minister Keizo Obuchi suffered a fatal stroke on April 2, 2000. A number of Japanese and American observers have been encouraged by moves by Prime Minister Koizumi to address Japan's serious structural problems, but meanwhile the country continues to labor under a staggering burden of bad loans, the industrialized world's highest fiscal deficit, and significant price deflation – which tend to depress both investment and consumption.

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States

would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be “meaningless” without the participation of the United States, the producer of 25% of the world’s greenhouse gases.

When President Bush and Prime Minister Koizumi met at Camp David on June 30, 2001, the Japanese leader indicated that he did not intend to proceed to sign the Kyoto Treaty without the United States, but that he hoped that the two countries could cooperate to address global warming issues. During a subsequent visit to the United Kingdom Koizumi indicated that he still hoped to persuade the United States to sign the treaty, but that it was pointless for Japan to sign the treaty if the United States stayed aloof. On July 23, 2001, at a world conference on climate change in Brussels, however, Japan and the European Union reached a compromise on the final terms for implementation of the Kyoto Treaty. The Japanese-EU bargain on modifications to the treaty opened the way to bringing the treaty into effect despite its abandonment by the Bush Administration. (Such implementation would not bind the United States unless the U.S. Government ratifies the treaty as well.)

The Whaling Issue. Members of Congress and Executive branch officials have criticized Japan’s decision to expand its whaling activities, which it justifies on grounds of scientific research and supporting the traditional livelihood of several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing Japanese whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed several resolutions asking Japan to curtail its research whaling, in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde’s whales. Because these two species are on the U.S. list of endangered and threatened species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of sanctions, which could have been imposed under U.S. law, the United States and Japan agreed to form a panel of experts to resolve the dispute over Japan’s scientific research whaling program. This panel met initially in early November 2000, deciding to propose that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

Claims of former World War II POWs and Civilian Internees. Congress has also indicated interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries.

The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107th Congress seek to block the Executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. (See Legislation section, below.)

On September 7, 2001, senior U.S. and Japanese officials and former senior officials attended ceremonies in San Francisco marking the 50th anniversary of the U.S. Japan Peace Treaty, which ended the U.S. occupation. Foreign Minister Tanaka repeated a 1995 statement by then Prime Minister Murayama, that "We have never forgotten that Japan caused tremendous damage and suffering to the people of many countries," and that its actions "left an incurable scar on many people, including former prisoners of war." The statement failed to satisfy protesters who have been demanding compensation for former POWs and civilian internees who were forced into slave labor. (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Security Issues

(This section written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory. In the post-Cold War era, a number of new issues have emerged in the security relationship.

Burden Sharing Issues. The United States has pressed Japan, including pressure from Congress, to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government, proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial

Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

On December 24, 2000, the Mori administration approved a 2001 draft defense budget totaling about \$43.9 billion. The budget includes a reduction of \$39.5 million in Japanese contributions to the support of U.S. forces based in Japan, in line with the agreement noted above.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

Revised Defense Cooperation Guidelines. The September 1995 abduction and rape incident had complicated an initiative by the Clinton Administration to negotiate an expanded role for Japan in supporting U.S. forces in any future East Asian crises. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in "situations in areas surrounding

Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan’s current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan’s role in implementing the 1997 defense guidelines, including crises in “areas surrounding Japan.”

Defense Technology Sharing. U.S. Defense Department officials have long promoted expanded defense technology sharing, starting in the late 1980s with a troubled and controversial program to co-develop and produce jointly a new Japanese fighter aircraft, the FSX (now entering service as the F-2). The Clinton Administration successfully pressed Japan to help develop jointly a theater missile defense system (TMD) for the defense of Japan against missile attacks.

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea’s missile program, but China has strongly opposed the program.

Japanese officials, starting with newly selected Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. The Japanese government has expressed concern over Secretary of Defense Donald Rumsfeld’s reported efforts to eliminate the distinction between NMD and Theater Missile Defense (TMD). The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control systems designed for the U.S. Navy’s Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system.

Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability. In late August 2001 the Japanese media reported that the Japan Defense Agency (JDA) had requested a doubling of its current budget for missile defense research to about \$66.5 million for FY2002. The budget request, which seeks a 1.8% increase in the face of cuts of up to 10% in other ministries, also includes funds for two new destroyers equipped with the Aegis radar and fire control system, including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL30992. *Japan-U.S. Cooperation on Theater Missile Defense*, by Richard P. Cronin and Jane Y. Nakano.)

Economic Issues

(This section written by William Cooper)

Economic ties with Japan remain critical to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5%, an increase from 1999 (0.8%). According to official statistics released in early September 2001, deflation-adjusted "real" GDP declined by 0.2% for January-March 2001 and by an alarming 0.8% in the April-June quarter, which equates to a 3.2% decline on an annualized basis. Nominal GDP – unadjusted for deflation – contracted by 2.7%, equating to a 10.3% annual rate. Reportedly, this was the steepest contraction since 1978, when the current statistical series began. Economists consider two consecutive quarters of negative economic growth as indicators of recession. Furthermore, the Japanese unemployment continues to hit record post-World War II levels. The Japanese government announced that the unemployment rate was 5.3% in September. Most major economic forecasters predict recession in Japan during the current and following years. The outlook is a major disappointment to Japanese economists and policymakers who had hoped that the Japanese economy would finally recover.

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan on June 26, 2001. The plan includes not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-

term. President Bush endorsed Koizumi's efforts during his June 30 meeting with the prime minister at Camp David. However, the Koizumi government appears to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking reform also remains a problem.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1**.) The trade deficit in 2001 is running somewhat lower, primarily because of the slowdown in the U.S. economy.

Table 1. U.S. Trade with Japan, 1996-2001
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2000*	42.3	96.4	- 54.1
2001*	40.3	86.1	- 45.8

* First 8 months

Source: U.S. Department of Commerce, Bureau of the Census, Trade Net Data Retrieval System. Exports are total exports valued on a f.a.s. basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete. They pressured the Clinton Administration and are now pressing the Bush Administration as well as the Congress to take action.

The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of "serious injury" to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. The investigation could lead to restraints in steel imports and could cause concern for the Japanese government and Japanese exporters.

On December 3, 2000, a 5-year U.S.-Japan bilateral pact on trade in cars and autoparts expired. The United States pressed Japan to renew, but Japan resisted. On June 26, 2001, a bipartisan group of members of the House and Senate sent a letter to President Bush urging him to push for the pact's renewal during his June 30 meeting with Koizumi. The two countries have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries,

such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

At their June 30 summit at Camp David, President Bush and Prime Minister Koizumi agreed to establish a sub-cabinet level forum – the “U.S.-Japan Economic Partnership for Growth” – to discuss economic issues of mutual concern, such as overall economic policies and deregulation, and persistent sector-specific concerns including autos and autoparts, insurance, and flat-glass. The forum will include business representatives and other non-government experts as well as government officials.

The United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. The climate in U.S.-Japan economic relations will likely be judged on how the two countries manage pending and future issues, including the following:

- Japanese challenges of U.S. AD, CVD, and other trade laws in the WTO;
- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to bilateral tensions;
- surges in U.S. imports of import-sensitive products, for example steel;
- economic growth and reform in Japan and their impact on the United States; and
- the ability of the two countries to work together to promote a common agenda in the WTO, the Asian-Pacific Economic (APEC) forum and other organizations.

Japanese Political Developments

(This section written by Mark Manyin)

Summary. Buoyed by the personal popularity of Prime Minister Junichiro Koizumi, the ruling coalition dominated by the Liberal Democratic Party (LDP) won significant election victories in recent months. First, the July 29, 2001 Upper House election. In part due to unexpectedly low turnout, the LDP reversed its recent record of losing ground in national elections by gaining 5 seats to increase its total to 111 in the 247-member body. Overall, the tripartite ruling coalition led by the LDP now controls 140 seats in the 247-member body, versus 59 for the largest opposition group, the Democratic Party. Then, in October 2001, LDP candidates won two lower house bi-elections, giving it a majority of 241 seats in the 480-seat chamber.

Many have hailed these victories as a sign that Koizumi’s economic reform programs will be set into motion. Ironically, however, the strongest opposition to Koizumi’s economic reforms is coming from the LDP’s powerful “old guard” factions, which fared well in the elections and generally are regarded as strongholds of “old economy” interests that are most threatened by Koizumi’s reforms. The key for Koizumi is likely to be whether or not he can seize the machinery of government away from the LDP’s kingpins. His chances for success may have been dimmed by the September 11, 2001 terrorist attacks. Not only have they

weakened Japan's economic prospects, but they also have led Koizumi to devote considerable time and political capital toward expanding Japan's security posture. Indeed, after nearly six months in power, the Koizumi cabinet has little to show in the way of economic reforms.

The Liberal Democratic Party. The LDP been the dominant political force in Japan since its formation in 1955. Its strength in the Diet (the Japanese parliament), however, has been steadily weakening for nearly a decade. Since it was briefly ousted from power from August 1993 - June 1994, the LDP's lack of a majority in both houses of the Diet has forced it retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party.

Long-time observers of Japanese politics often quip that the LDP is "neither liberal, nor democratic, nor a party." It is not considered liberal because most – though by no means all – of its members hail from the conservative end of the political spectrum in Japan. It is not considered democratic because major decisions typically have been made by party elders in closed-room sessions out of the view of the public and with little input from the party's grass-roots. Finally, the LDP is not considered a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically are filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. Intra-party factional competition is a major reason the tenure of LDP presidents – who effectively becomes the prime minister – is only two years. For over two decades, the LDP's dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto.

LDP Factions (as of August 28, 2001)

Faction Name	Members
Hashimoto	103
Mori	56
Eto-Kamei	54
Horiuchi	42
Yamasaki	22
Kato	15
Komura	13
Kono	10
Independent	35

Source: *Yomiuri Shimbun*, August 29, 2001

One result of the LDP's opaque, top-down decision-making structure has been that young and/or reform-minded party members often find it difficult to ascend into leadership positions. Over the past decade, the frustrations of these Diet-members increasingly have spilled out into public view. The LDP's loss of power in 1993, for instance, was caused by the defection of several dozen members of the party's reformist wing, some of whom today are major figures in opposition parties. Frustration within the party also mounted in 2000, after party elders hand-picked Yoshiro Mori (Mori faction) to replace then-Prime Minister Keizo Obuchi (Hashimoto faction), who had been stricken with a fatal illness. Apparently, the Japanese public also disapproved, handing the LDP a defeat in the July 2000 Lower House elections. With Mori's public approval ratings plummeting below 10% in early 2001, the LDP's leaders decided to select a new leader. In a surprising development, protests by younger politicians and local LDP affiliates forced the leadership to make the party presidential selection process more democratic, thereby paving the way for the anti-establishment Koizumi's ascension to power in late April. (see below)

The LDP's rigidity also has caused it to be slow to adapt to changes in Japanese society. The LDP also has coddled many of Japan's declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party's political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP's top leaders have been implicated in various kickback scandals. Over the years, a bloc of independent voters has arisen opposing the "business as usual" political system. Primarily younger voters, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform. Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The Koizumi Cabinet. Koizumi's unprecedented grass-roots support has given him perhaps the strongest mandate of any Japanese leader since the LDP's formation in 1955. His victories in April, July, and October stem in large measure from his image as a fresh face of the LDP – from his straight-talking speaking manner down to his youthful hairstyle – despite the fact that he has been an LDP Dietmember since the 1970s. His Cabinet is nearly as unprecedented as the way in which he was elected: Five out of seventeen posts are held by women, including Makiko Tanaka, the embattled foreign minister, who is one of the most independent (she does not belong to any faction) and popular politicians in Japan. Perhaps more significantly, Koizumi bucked party tradition first by resigning from his own faction (the Mori group) and then by giving the LDP's most powerful and conservative factions – the Hashimoto and the Eto-Kamei groups – only one Cabinet post each. Both factions had opposed Koizumi and many of his reformist proposals. Furthermore, both factions have championed the LDP's coalition with the pacifist New Komeito party, an alliance that has complicated Koizumi's attempts to expand the role of Japan's self-defense forces.

Since becoming prime minister, Koizumi has trumpeted an agenda of "reform without sacred cows," including pledges to force Japanese banks to dispose of bad loans within three years, cap the country's budgetary deficit at 30 trillion yen (\$250 billion at ¥120 = \$1), privatize public corporations, disband LDP factions, amend the constitution to allow the direct election of the prime minister, and – in the medium term – amend Article 9 of the constitution so that it would affirm Japan's right to maintain military forces for defensive purposes and allow collective security arrangements. In his decision-making style, Koizumi has presented himself as a new breed of Japanese politician. He has reached out to the Japanese electorate in an unprecedented fashion, holding town-hall meetings to discuss his financial reform agenda and creating an e-mail newsletter that reportedly has over a million subscribers. Moreover, he has circumvented the LDP's traditional decision-making system by publicly issuing policy initiatives directly from the Prime Minister's office, rather than by waiting for approval from faction leaders. Koizumi has also reached out to Japanese conservatives by pursuing more nationalistic policies, including calling for Japanese troops to participate in United Nations peace-keeping operations, proposing an unprecedented set of measures to support the U.S. anti-terrorist campaign, and visiting the Yasukuni Shrine (which houses the remains of several Class A war criminals) to honor Japan's war dead.

Many commentators wonder whether Koizumi can successfully carry out his political and economic agenda, particularly since 1) his economic reforms are likely to dramatically increase unemployment; 2) many of his proposals would debilitate the LDP's core constituents and therefore are anathema to many party elders, particularly many in the

conservative Hashimoto and Eto-Kamei factions; and 3) these factions have watered down his ambitious plans to beef up Japan's security posture due to fears of upsetting the pacifist New Komeito party. Much hinges on whether Koizumi can sustain his high public approval ratings – currently around 70% – long enough to strengthen the LDP's reformist wing. He has had some success. The number of independent LDP members (those who belong to no faction) has nearly tripled to about 10% of the party's Dietmembers. Additionally, in the July Upper House elections Koizumi helped secure the victories of several LDP candidates from urban areas, where until recently the LDP had been faring poorly. The Hashimoto faction, however, has actually gained in numerical strength since Koizumi took power. One potential weapon Koizumi can wield against the LDP conservatives is the prime ministerial prerogative of calling a Lower House election; there is speculation that if Koizumi's popularity remains high, he might call a snap election to bolster support for his programs.

The Democratic Party of Japan (DPJ). Koizumi's unprecedented popularity has thrown the main opposition party, the Democratic Party of Japan (DPJ), on the defensive. Until Koizumi's rise to power in April, the DPJ had been expected to do well in the July 2001 Upper House elections, in which it ultimately gained three seats. In contrast, the DPJ had scored significant gains during Lower House elections in 2000, when the party increased its strength from 95 to 127 seats, largely due to the support of independent urban voters. The DPJ, which describes itself as "centrist," is led by Yukio Hatoyama, a former LDP politician who was elected as leader on September 25, 1999, to replace Naoto Kan, a popular politician in his own right. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20%. Indeed, the DPJ's few concrete economic proposals – such as capping the budget deficit – have been adopted by Prime Minister Koizumi.

U.S. Policy Approaches

(This section written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress and the wider public broadly agree across party, ideological, and interest group lines on the need to reduce the U.S.-Japan trade deficit while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

1) Emphasize Alliance Cooperation. Some, notably President George W. Bush and his Asian and economic policy advisors, favor emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers took pride of place. Proponents of this approach tend to see threats to regional stability such as China's growing assertiveness and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

2) Emphasize U.S. Trade and Economic Objectives. A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of getting Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy, relying on pragmatism in both capitals to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate. Some academic and "think tank" proponents of this approach view Japan as a "free-rider" on U.S. security protection, and a few argue that U.S. economic and other interests would be better served by a phased military withdrawal from Japan.

The Bush Administration has indicated that it intends to firmly commit to a policy of emphasizing alliance cooperation, but some in Congress may continue to call for measures to redress the trade imbalance and in particular to counter surges of Japanese imports that damage U.S. industries.

LEGISLATION

H.Amdt. 188 (A022) (Rohrabacker)

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001.

S.Amdt. 1538 (Smith, Bob)

Amends H.R.2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by Yea-Nay Vote. 34-58. Record Vote Number: 276. Adopted by voice vote, September 10, 2001.

S. 1272 (Hatch)

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001.

S. 1302 (Bingaman)

A bill to authorize the payment of a gratuity to members of the armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Introduced August 2, 2001. Referred to Committee on Veterans' Affairs.

CRS Issue Brief for Congress

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Japan-U.S. Relations: Issues for the 107th Congress

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LEGISLATION

Japan-U.S. Relations: Issues for Congress

SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. The desire of the George W. Bush administration to deepen and strengthen U.S.-Japan strategic relations has caused Japanese analysts and officials to have expectations of a positive shift in the triangular U.S.-Japan-China relationship, but also concern about possibly becoming involved in an explicitly anti-China security posture.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade, U.S. foreign policy, ballistic missile defense (BMD), and regional security issues. The latter include North Korean nuclear and missile proliferation, China's emergence as a potential U.S. military adversary, and U.S. military bases in Japan, whose importance has been underscored once again in the anti-terrorist campaign in Afghanistan.

Some analysts both here and in Japan question whether the three-party coalition government in Tokyo led by Prime Minister Junichiro Koizumi is ready for a closer U.S. embrace, especially in regard to security cooperation. However, the Koizumi government succeeded in gaining parliamentary approval to send Japanese ships to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. Because of a constitutional ban on offensive military action not strictly for self-defense, Japanese ships will be restricted to non-combat support.

Due to its own concerns about North Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases cooperation

with the United States under revised defense cooperation guidelines that were agreed to in September 1997. Japan also has committed to participate in joint research and development of a theater-range missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit fell from a high of \$65 billion in 1993 to \$47.6 billion in 1996, but then rose sharply again, reaching a record \$73.9 billion in 1999. A major factor in the trade deficit has been the sluggish Japanese economy. As of early 2001, indications are that the Japanese economy is in a recession again after a brief period of modest growth, with unemployment rising to record levels.

In response to the rising trade deficit, the Clinton Administration repeatedly urged Japan to adopt initiatives to stimulate and deregulate its economy and threatened or imposed anti-dumping tariffs. The Bush Administration has paid somewhat less attention to the trade deficit, while encouraging Japan to follow-through on structural reforms and measures to attack Japan's enormous stock of bad loans.

Congress has reacted critically to alleged steel dumping by Japan, and the 106th Congress enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured by dumped and subsidized imports. Japan's objections to U.S. anti-dumping laws and U.S. complaints about Japanese agricultural protectionism have been key issues of contention in WTO negotiations on the issues to be included in a new round of global trade negotiations.

MOST RECENT DEVELOPMENTS

President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi on issues such as alliance relations, cooperation against terrorism, and Japan's continuing economic slump, and addressed a joint session of the Japanese Diet (parliament). The President provided some clarification of his "Axis of Evil" reference to North Korea, Iraq, and Iran in his State of the Union Address, and praised Prime Minister Koizumi's economic reform program. Coming on the heels of Koizumi's sacking of his controversial but popular foreign minister, Makiko Tanaka, which cut 20% off his 70-80% public approval ratings, the visit appeared to have the intended goal of giving the Japanese leader a morale boost, whatever the impact on his popularity.

Publicly the President's tone appeared less critical of Japan than the stance adopted by U.S. Treasury Secretary O'Neill on January 23, 2002, in Tokyo, in which O'Neill warned the Koizumi government that it needed to take action to resolve its economic problems, especially non-performing bank loans. However, although he called Koizumi a "great reformer" in public, subsequent to the President's return to Washington the Japanese press obtained and published a confidential letter dated January 17, in which among other things President Bush reportedly told the prime minister of his deep concern that Japan's huge stock of nonperforming loans and assets "were not being moved quickly to the market." Koizumi himself reportedly joked to journalists about his concerns that the President might say in public what he had heard from him in private.

Japanese officials and the press expressed dismay at the omission of Japan from a list of 26 allied countries that had contributed to the anti-terrorist campaign, despite the fact that Japan sent military forces to the Indian Ocean region, hosted an Afghan aid conference in January, and has pledged large scale aid to the reconstruction of Afghanistan. The Defense Department subsequently apologized for the omission.

The Japanese government and public reacted angrily to the announcement by President Bush on March 5 that his Administration would impose "safeguard" tariffs of 30% on a range of steel imports. Tokyo has formally asked for talks—implying that it will join the EU in taking the issue to the WTO.

BACKGROUND AND ANALYSIS

U.S.-Japan Cooperation and Interdependence

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment).

The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy.

Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan generally disproved the concerns of some commentators that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administration's bid for closer security cooperation and coordination. As evidenced by the President's March 2002 decision to impose a series of anti-dumping tariffs to protect the struggling U.S. steel industry, on the other hand, Japanese hopes for a relaxation of U.S. trade and economic policy pressure have been partially disappointed.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi set the tone for relations at a summit meeting at the Camp David presidential retreat on June 30, 2001. President Bush indicated strong support for the Japanese Prime Minister's economic and financial reform program, while Prime Minister Koizumi pledged to pursue cooperation across a broad front and couched his concerns about the Administration's abandonment of the Kyoto Treaty and its ballistic missile defense program in positive terms.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The New York attacks especially shocked Japan, which had a large commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. On September 12, 2001 (Japanese Time), Japanese Prime Minister Junichiro Koizumi held a post-midnight press conference in which he denounced the terrorist attacks in New York and Washington. He convened an emergency National Security Council meeting that formulated initial measures to provide support for the United States, including increased bilateral anti-terrorism cooperation. Koizumi called the attacks “cowardly, outrageous, and reckless” in a message to President Bush.

Prime Minister Koizumi had to overcome dissension within the ruling three-party coalition to gain enough political maneuver room to allow Japan to contribute militarily to the U.S.-led anti-terrorist campaign. In addition to dissent from the New Komeito, Koizumi faced opposition from Old Guard elements in his own Liberal Democratic Party (LDP) who didn't want to jeopardize the fragile ruling coalition or, it would seem, give Koizumi too much independence. Koizumi's response appeared guided both with a view towards the perceived seriousness of the threat to Japanese interests and a peaceful international order,

and in reaction to past criticism of Japan for not providing direct support to the U.S.-led coalition during the January-March 1991 Gulf War against Iraq.

On October 30, 2001, the Upper House of the Japanese Diet (parliament) cleared two bills giving unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to “show the flag” in a non-combat role in support of U.S. and allied military operations in the Indian Ocean area. Legislation valid for a period of two years, and extendable, allows the SDF to provide “rear area” support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. In an effort to reconcile the terms of Japan’s “no-war” constitution with U.S. expectations, Maritime SDF vessels are allowed under the legislation to transport nonlethal supplies to U.S. forces, but not arms and ammunition. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on “collective defense” activities.

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, to provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla consisting of four destroyers, two fleet oilers, and a minesweeper (to ferry supplies) that the Japanese government will send to the region under a “basic plan” that has been formulated to respond to U.S. requests for anti-terrorist assistance. The plan, which is limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia.

Due to objections from within the ruling coalition, the Koizumi government decided not to send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States had informally requested.

On November 14 the Japanese government announced an emergency grant of \$300 million to Pakistan covering refugee relief and other needs for a period of two years – a quantum increase over the \$40 million committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Japan joined the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20, and hosted a donors meeting in Tokyo that began on January 21, 2002, at which it pledged \$500 million for reconstruction aid over the next two years.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China’s rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate – as at present. Japan’s own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan’s concerns about China’s rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of

Japan's past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy.

Recently, Tokyo and Beijing also have engaged in trade confrontation. In response to Tokyo's imposition of anti-dumping tariffs against certain Chinese agricultural exports, China has imposed 100% duties on Japanese exports of autos, cell phones, and air conditioners.

Sino-Japanese relations took an upturn as a result of Prime Minister Koizumi's visit to Beijing on October 8, 2001. The agenda included a visit by Koizumi to the Marco Polo Bridge, near Beijing, the site of a manufactured incident that triggered Japan's 1937 invasion of China. During the visit Koizumi conveyed the fullest apology for past wrongs ever delivered by a Japanese Prime Minister.

Relations remain strained over military issues, including Japanese concern about fast-rising Chinese defense budgets and Chinese objections to the rising profile of the Japanese Self-Defense Forces. In late December 2001, acting under revised rules of engagement, Japanese Maritime Self-Defense Forces ships chased into the East China Sea, a presumed North Korean spy boat that had penetrated into Japanese coastal waters. As the Japanese ships closed in, the crew of the mystery ship reportedly fired hand-held weapons at the Japanese before scuttling and sinking their own vessel. Reportedly, initial intelligence about the ship was provided by U.S. forces. Both China and South Korea have expressed concern about the fact that the ship was sunk in international waters, within China's 200-mile Exclusive Economic Zone (EEZ), and China opposes Japanese plans to raise the ship.

Differing Korean Peninsula Priorities. The United States and Japan share the same broad objectives regarding the unstable Korean Peninsula, but Japanese officials frequently have expressed a feeling of being left out of U.S. decisionmaking. Japanese policymakers appear torn between a desire to move slowly and deliberately on normalizing relations with North Korea, and worry about becoming isolated from U.S.-South Korea-North Korea diplomacy. Tokyo agreed reluctantly under pressure from the Clinton Administration to commit to pay about \$1 billion towards the construction of two light water nuclear power reactors for the North under the October 1994 U.S.-North Korea "Agreed Framework," but only agreed to provide food aid to North Korea in October 2000, after a five-year suspension.

From time to time Japanese leaders have shown anxiety over the possibility that U.S. negotiators would ignore Japanese concerns about the threat from North Korea's short-range "Nodong" missiles and the fate of some 10 Japanese citizens allegedly kidnapped by North Korean agents during the period 1977-1980. Japanese officials and commentators have welcomed indications that the Bush Administration is moving more cautiously and slowly in normalization discussions with Pyongyang, and is perceived to be paying close attention to Japanese concerns.

Japan has tried in part to compensate for sometimes feeling "left out" of U.S. policymaking towards the Korean Peninsula by itself drawing closer to the South Korean government headed by President Kim Dae Jung. The high point of this effort was South

Korean President Kim Dae Jung's state visit to Japan in October 1998, during which Tokyo issued its first ever written apology for its past treatment of Korea. Recently, however, Japan-South Korea relations have been buffeted by the same issues arising out of Japan's wartime past that have afflicted Sino-Japanese relations. A visit to Seoul by Prime Minister Koizumi in early October 2001 was marred by anti-Japanese demonstrations and failure to resolve a sensitive fishing issue. Reportedly, South Korean President Kim offered no objection to Japan's plans to provide logistical support to the U.S. military campaign against the Taliban regime in Afghanistan and the forces of Osama bin Laden, but also urged Koizumi not to alter Japan's constitution.

The incident also created controversy in Japan, both because of the aggressive response of the MSDF and also because of reported failures in communication and coordination between the MSDF, which is Japan's navy in all but name, and the Japanese Coast Guard.

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be "meaningless" without the participation of the United States, the producer of 25% of the world's greenhouse gases.

When President Bush and Prime Minister Koizumi met at Camp David on June 30, 2001, the Japanese leader indicated that he did not intend to proceed to sign the Kyoto Treaty without the United States, but that he hoped that the two countries could cooperate to address global warming issues. During a subsequent visit to the United Kingdom Koizumi indicated that he still hoped to persuade the United States to sign the treaty, but that it was pointless for Japan to sign the treaty if the United States stayed aloof. On July 23, 2001, at a world conference on climate change in Brussels, however, Japan and the European Union reached a compromise on the final terms for implementation of the Kyoto Treaty. The Japanese-EU bargain on modifications to the treaty opened the way towards bringing the treaty into effect despite the decision of the Bush Administration not to ratify the treaty. (Such implementation would not bind the United States unless the U.S. Government ratifies the treaty as well.)

The Whaling Issue. Members of Congress and Executive branch officials have criticized Japan's decision to expand its whaling activities, which it justifies on grounds of scientific research and supporting the traditional livelihood of several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing Japanese whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed

several resolutions asking Japan to curtail its research whaling, in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde's whales. Because these two species are on the U.S. list of endangered and threatened species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of sanctions, which could have been imposed under U.S. law, the United States and Japan agreed to form a panel of experts to resolve the dispute over Japan's scientific research whaling program. This panel met initially in early November 2000, deciding to propose that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. Japan generated international criticism in late February 2002 when it notified the IWC that it planned to double the number of minke whales that it takes in North Pacific Waters, from 50 to 100, and to also take 50 sei whales, which are a listed endangered species. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

Claims of former World War II POWs and Civilian Internees. Congress has also indicated interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107th Congress seek to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). (See Legislation section, below.) The conference report explains that the provision was dropped because the adamant opposition of the President would have

jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable “parliamentary tactic.”

On September 7, 2001, senior U.S. and Japanese officials and former senior officials attended ceremonies in San Francisco marking the 50th anniversary of the U.S. Japan Peace Treaty, which ended the U.S. occupation. Foreign Minister Tanaka repeated a 1995 statement by then Prime Minister Murayama, that “We have never forgotten that Japan caused tremendous damage and suffering to the people of many countries,” and that its actions “left an incurable scar on many people, including former prisoners of war.” The statement failed to satisfy protesters who have been demanding compensation for former POWs and civilian internees who were forced into slave labor. (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Security Issues

(This section written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A

complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

Revised Defense Cooperation Guidelines. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in "situations in areas surrounding Japan" including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan's current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan's role in implementing the 1997 defense guidelines, including crises in "areas surrounding Japan."

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea's missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. The Japanese government has expressed concern over Secretary of Defense Donald Rumsfeld's reported efforts to eliminate the distinction between NMD and Theater Missile Defense (TMD). The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control

systems designed for the U.S. Navy's Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system.

Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability. In late August 2001 the Japanese media reported that the Japan Defense Agency (JDA) had requested a doubling of its current budget for missile defense research to about \$66.5 million for FY2002. The budget request, which seeks a 1.8% increase in the face of cuts of up to 10% in other ministries, also includes funds for two new destroyers equipped with the Aegis radar and fire control system, including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL30992. *Japan-U.S. Cooperation on Theater Missile Defense*, by Richard P. Cronin and Jane Y. Nakano.)

Economic Issues

(This section written by William Cooper)

Economic ties with Japan remain critical to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5%, an increase from 1999 (0.8%). However, the Japanese Government reported that real GDP in January-March 2001 increased only 0.1% (it revised its earlier estimate of a decline of 0.2%), but declined 1.2% in the April-June 2001 quarter and declined 0.5% in the July-September quarter, meaning that Japan is in recession. Reportedly, this was the steepest contraction since 1978, when the current statistical series began. Furthermore, the Japanese unemployment continues to hit record post-World War II levels. The Japanese government announced that the unemployment rate was 5.6% in December. Most mainstream economic forecasters predict the recession in Japan the current year and the follow year. The outlook is a major disappointment to Japanese economists and policymakers who had hoped that the Japanese economy would finally recover.

Another sign of a weakening Japanese economy has been the rapid depreciation of the yen. The Japanese yen has depreciated in the last year in terms of the dollar making U.S. exports to Japan more expensive and imports from Japan cheaper causing U.S. exporters and import-sensitive producers some competition concerns. On January 2, 2001, the yen/dollar exchange rate was ¥114.75=\$1.00. On February 26, 2002, the rate was ¥133.88 = \$1.00, a 14.5% yen depreciation. In a January 23, 2002 speech in Tokyo, Secretary of the Treasury O'Neill warned Japan that the United States did not support a policy of a weak yen as a way for Japan to stimulate its economy.

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan on June 26, 2001. The plan includes not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-term. President Bush endorsed Koizumi's efforts during his June 30 meeting with the prime minister at Camp David. However, the Koizumi government appears to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking reform also remains a problem.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy.

Table 1. U.S. Trade with Japan, 1996-2001
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0

Source: U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s .basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of “serious injury” to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. President Bush must decide by March 6 whether to take actions and, if so, what actions, to remedy the injury or threat thereof.

On December 3, 2000, a 5-year U.S.-Japan bilateral pact on trade in cars and autoparts expired. The United States pressed Japan to renew, but Japan resisted. On June 26, 2001, a bipartisan group of members of the House and Senate sent a letter to President Bush urging him to push for the pact’s renewal during his June 30 meeting with Koizumi. The two countries have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries, such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

At their June 30 summit at Camp David, President Bush and Prime Minister Koizumi agreed to establish a sub-cabinet level forum – the “U.S.-Japan Economic Partnership for Growth” – to discuss economic issues of mutual concern, such as overall economic policies and deregulation, and persistent sector-specific concerns including autos and autoparts, insurance, and flat-glass. The forum will include business representatives and other non-government experts as well as government officials.

The United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. The climate in U.S.-Japan economic relations will likely be judged on how the two countries manage pending and future issues, including the following:

- Japanese challenges of U.S. AD, CVD, and other trade laws in the WTO;
- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to bilateral tensions;
- surges in U.S. imports of import-sensitive products, for example steel;
- economic growth and reform in Japan and their impact on the United States;
- and

- the ability of the two countries to work together to promote a common agenda in the WTO, the Asian-Pacific Economic (APEC) forum and other organizations.

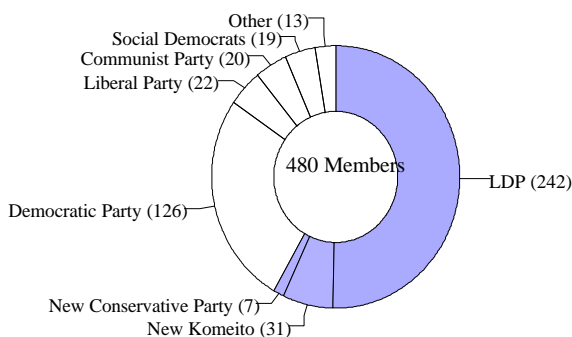
Japanese Political Developments

(This section written by Mark Manyin)

Summary. In the weeks after his unconventional rise to power in April 2001, the extraordinary popularity of Prime Minister Junichiro Koizumi helped propel the ruling coalition dominated by the Liberal Democratic Party (LDP) to significant victories in two parliamentary elections. The key to his popularity was his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. Koizumi's public approval rating remained well over the 70% level despite Japan's worsening economic situation and a growing sense that Koizumi was unlikely and/or unwilling to follow through on his promises to radically reform the economy and political system.

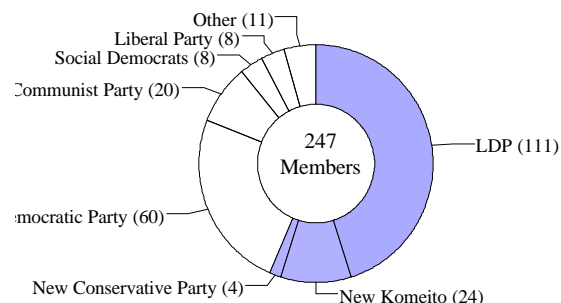
Lower House Composition

Color Slice = Ruling Coalition Member



Upper House Composition

Color Slice = Ruling Coalition Member



In early February, however, Koizumi's approval ratings plummeted by more than 20% after he dismissed the much-maligned but highly popular Foreign Minister, Makiko Tanaka, over a dispute with Foreign Ministry bureaucrats and a prominent LDP politician. Although most Japanese appeared ambivalent about Tanaka's performance as a diplomat, they had applauded her attempts to reform the scandal-plagued Foreign Ministry and her frequent criticisms of the LDP's decision-making system. Her dismissal was taken as a sign that Koizumi had bowed to the wishes of the LDP's powerful old guard factions that are strongholds of the "old economy" interests that are most threatened by Koizumi's agenda. Because Koizumi's popularity was one of the few weapons he could wield in his efforts to seize the machinery of government away from the LDP's kingpins, the prospects for his economic reform program have become even more clouded.

The Liberal Democratic Party. The LDP has been the dominant political force in Japan since its formation in 1955. Its strength in the Diet (the Japanese parliament), however, has been steadily weakening for nearly a decade. Since it was briefly ousted from power in 1993 and 1994, the LDP's lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower

House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass.

Long-time observers of Japanese politics often quip that the LDP is “neither liberal, nor democratic, nor a party.” It is not considered liberal because most – though by no means all – of its members hail from the conservative end of the political spectrum in Japan. It is not considered democratic because major decisions typically have been made by party elders in secretive, closed-room sessions with little input from the party’s grass-roots. Finally, the LDP is not considered a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. For over two decades, the LDP’s dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto, who in April 2001 was surprisingly defeated by Koizumi in the selection for LDP President.

One result of the LDP’s opaque, top-down decision-making structure is that it has been slow to adapt to changes in Japanese society. The LDP has coddled many of Japan’s declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party’s political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP’s top leaders have been implicated in various kickback scandals. Over the past decade, a bloc of independent voters – who now constitute a majority of the voting population – has arisen opposing the LDP’s “business as usual” political system. Drawn from the younger generation and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform. Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The Koizumi Cabinet. Koizumi’s stunning victory over Hashimoto in the April 2001 selection of a new LDP President was made possible by the new openness of the LDP’s election process. In a break from the tradition of king-making by party elders in Tokyo, local party chapters successfully forced the Party to give them a major voice in selecting their party’s president, in part by allowing a prefectural primary days before the party’s national representatives were to vote. Koizumi’s unprecedented grass-roots support gave him perhaps the strongest mandate of any Japanese leader since the LDP’s formation in 1955. His electoral victories in July and October 2001 stemmed in large measure from his image as a fresh face of the LDP – from his straight-talking speaking manner down to his youthful hairstyle – that is particularly appealing to independent voters. His choice of officials for his first Cabinet was unprecedented: Five out of seventeen posts were held by women, including Makiko Tanaka, who is one of the most independent, outspoken, and popular politicians in Japan. More importantly, Koizumi bucked party tradition first by resigning from his own faction (the Mori group) and then by giving the LDP’s most powerful and conservative factions – the Hashimoto and the Eto-Kamei groups – only one Cabinet post each. Both factions have opposed Koizumi and many of his reformist proposals. Furthermore, both factions have championed the LDP’s coalition with the pacifist New Komeito party, an

alliance that has complicated Koizumi's attempts to expand the role of Japan's self-defense forces so that they could participate in the U.S.-led anti-terrorist coalition.

Shortly after becoming prime minister, Koizumi trumpeted an agenda of "reform without sacred cows," including pledges to force Japanese banks to dispose of bad loans, cap the central government's annual budget deficit at 30 trillion yen (\$250 billion), privatize public corporations, disband LDP factions, amend the constitution to allow the direct election of the prime minister, and amend Article 9 of the constitution to affirm Japan's right to maintain military forces for defensive purposes and allow collective security arrangements. In his decision-making style, Koizumi has presented himself as a new breed of Japanese politician. Not only has he taken the unusual step of holding town-hall meetings, but also he has circumvented the LDP's traditional decision-making system by publicly issuing policy initiatives directly from the Prime Minister's office, rather than by waiting for approval from faction leaders. Koizumi has also reached out to Japanese conservatives by pursuing more nationalistic policies, including calling for Japanese troops to participate in United Nations peace-keeping operations, proposing an unprecedented set of measures to support the U.S. anti-terrorist campaign, and visiting the Yasukuni Shrine (which houses the remains of several Class A war criminals) to honor Japan's war dead.

Many commentators have wondered whether Koizumi can successfully carry out his political and economic agenda, particularly since 1) his economic reforms are likely to dramatically increase unemployment; and 2) many of his proposals would debilitate the LDP's core constituents and therefore are anathema to many party elders, particularly those in the conservative Hashimoto and Eto-Kamei factions. Much hinged on whether Koizumi could sustain his high public approval ratings long enough to strengthen the LDP's reformist wing. Now that his popularity has fallen in the wake of Foreign Minister Makiko Tanaka's dismissal, he is likely to find it even more difficult to overcome resistance from within his own party. Indeed, his latest economic reform package – unveiled on February 27 – is widely considered too timid to correct the structural problems plaguing the Japanese economy successfully. From time to time, Koizumi has flirted with the idea of outflanking his LDP opponents by cooperating with elements of the main opposition party, the Democratic Party of Japan.

The Democratic Party of Japan (DPJ). Koizumi's declining popularity has given new life to the DPJ, which for months had been on the defensive. Until Koizumi's rise to power in April, the DPJ had been expected to do well in the July 2001 Upper House elections, in which it ultimately gained three seats. In contrast, the DPJ had scored significant gains during Lower House elections in 2000, when the party increased its strength from 95 to 127 seats, largely due to the support of independent urban voters. The DPJ, which describes itself as "centrist," is led by Yukio Hatoyama, a former LDP politician whom most analysts consider to be a standard bearer lacking the charisma and outspokenness sought by many Japanese independent voters. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20% and currently are hovering in the single digits. Indeed, the DPJ's few concrete economic proposals have been adopted by Prime Minister Koizumi as part of his own, as yet unfulfilled, agenda.

U.S. Policy Approaches

(This section written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress and the wider public broadly agree across party, ideological, and interest group lines on the need to reduce the U.S.-Japan trade deficit while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

1) Emphasize Alliance Cooperation. Some, notably President George W. Bush and his Asian and economic policy advisors, favor emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers were given highest priority. Proponents of this approach tend to see threats to regional stability such as China's growing assertiveness and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

2) Emphasize U.S. Trade and Economic Objectives. A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of getting Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy, relying on pragmatism in both capitals to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate. Some academic and "think tank" proponents of this approach view Japan as a "free-rider" on U.S. security protection, and a few argue that U.S. economic and other interests would be better served by a phased military withdrawal from Japan.

The Bush Administration has indicated that it intends to firmly commit to a policy of emphasizing alliance cooperation, but some in Congress may continue to call for measures

to redress the trade imbalance and in particular to counter surges of Japanese imports that damage U.S. industries.

LEGISLATION

H.Amdt. 188 (A022) (Rohrabacker)

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77).

H.Res. 65 (King, Peter T)

Establishing a Select Committee on POW and MIA Affairs. Introduced Feb. 27, 2001. Referred to House committee.

S. 1272 (Hatch)

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001.

S. 1302 (Bingaman)

A bill to authorize the payment of a gratuity to members of the armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Introduced August 2, 2001. Referred to Committee on Veterans' Affairs.

S.Amdt. 1538 (Smith, Bob)

Amends H.R.2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by Yea-Nay Vote. 34-58. Record Vote Number: 276. Adopted by voice vote, September 10, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77).

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Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects

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Japan-U.S. Cooperation on Theater Missile Defense: Issues and Prospects

Summary

The issue of missile defense cooperation with Japan intersects with several issues of direct concern to Congress, ranging from support for developing a capability to protect U.S. regional forces, Asia-Pacific allies, and Taiwan, from Chinese short- and medium-range missiles, to countering a possible future threat to U.S. territory from long-range missiles developed by North Korea. Japan's current participation in the U.S. ballistic missile defense (BMD) program dates from August 1999, when the Japanese government agreed to conduct cooperative research on four components of the interceptor missile being developed for the then U.S. Navy Theater-Wide (NTW) anti-missile system—a sea-based “upper tier” (exo-atmospheric) capability against short- and medium-range missiles up to 3,500 kilometers.

In the spring of 2001, the Administration changed the context of the cooperative research effort when it reorganized and redirected the U.S. missile defense program to emphasize the employment of specific technologies across the entire spectrum of missile defense challenges, but especially to gain a limited, near-term capability to defeat missile attacks on U.S. territory by “rogue” states. The Pentagon redesignated the NTW program as the Sea-Based Midcourse System, with a goal of developing a capability for attacking missiles of all ranges in the initial or middle phases of their flight path. This change added to an already complex list of Japanese policy concerns, by putting Japan in the position of possibly cooperating in the development of technology that could become part of an American national missile defense capability — a step that many Japanese see as transgressing a constitutional ban on “collective defense.”

Thus far, the Administration's program change has not deterred Japan from cooperative research on missile defense, but the policy shift has unsettled Japanese leaders and created additional political obstacles to bilateral BMD cooperation. The new U.S. approach has been criticized in the Japanese press and the Diet (parliament), both because of the potential violation of the implied ban on “collective defense” contained in Article 9 of Japan's U.S.-imposed “Peace Constitution,” and also because the Bush initiative requires the United States to withdraw from the U.S.-Russian Anti-Ballistic Missile (ABM) treaty, which Tokyo has long regarded as an important element of strategic stability. An integrated U.S.-Japan BMD capability aimed at protecting third countries would raise the same constitutional issues.

Japan has not made a decision regarding the acquisition of a missile defense capability. Japanese policymakers and defense firms generally are enthusiastic about missile defense cooperation, but the political parties, the media, and the general public are split over the issue. Proponents view BMD cooperation as a means to counter a perceived North Korean missile threat, and perhaps a Chinese threat as well. Other Japanese are fearful of aggravating relations with China or triggering an Asian missile race. Even groups in Japan favoring BMD cooperation are concerned about the large costs associated with the still-unproven technology. The popular Koizumi administration seems inclined to finesse the constitutional issue, if possible. Japan's future stance will likely depend on regional developments and how the issue plays out in the currently unstable political environment.

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Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects

Issue Overview

Japan's August 1999 agreement to engage in ballistic missile defense cooperation with the United States has the potential for contributing materially to the ability of the U.S. Navy to field an Asian regional defense against intermediate-range ballistic missiles, a goal that has long received strong support from Congress. Although Japan has committed to research and development (R&D) cooperation on four elements of a Navy interceptor missile, Tokyo has not made a decision to acquire a missile defense capability. It is even less clear how far Japan might be prepared to move in the direction of an integrated regional missile defense cooperation arrangement. The extent of Japan's future participation in missile defense will be governed by a number of considerations, including its threat perceptions, overall national defense strategy, regional relationships, constitutional constraints, domestic political impact, technical feasibility, and cost. The relative importance of these factors cannot be established with any precision – any one or combination of them could have a make or break effect on Japanese decisionmaking. To date, these considerations have had a mixed and sometimes contradictory effect on Japanese policy.

Focus and Scope of This Report

This report documents and analyzes Japanese perspectives on ballistic missile defense and on participation in the U.S. missile defense R&D program, with particular attention to current trends in Japanese security thinking, major actors in the policymaking process, and political and constitutional constraints. It notes areas of convergence as well as issues on which American and Japanese perspectives tend to diverge. Finally, the report briefly addresses a number of policy considerations for Congress and the Bush Administration in light of ongoing uncertainties about Japan's participation. For broader background on U.S.-Japan relations and security cooperation, see Issue Brief IB97004, *Japan-U.S. Relations: Issues for Congress* (regularly updated).

Congressional Support for An "Asian" Missile Defense Capability

Since the mid-1990s, Congress has supported the development of a missile defense capability to protect forward-deployed U.S. forces in the Asia-Pacific area, regional allies, and Taiwan from short- and medium-range missiles, a goal that requires some level of Japanese support—if only hosting U.S. missile defense forces. The 1991 Persian Gulf War highlighted the threat of short-range Scud ballistic missiles and the inadequacy of the Army's Patriot missile defense system to protect U.S. ground forces and facilities. Similar concerns have been expressed regarding

the U.S. Navy's current lack of a defense against both short- and intermediate-, or "theater"-range, ballistic missiles, and cruise missiles. Testimony by numerous defense and intelligence officials highlighted the growing threat posed by the development of intermediate-range ballistic missiles capable of carrying weapons of mass destruction (WMD) by anti-U.S. regimes ranging such as North Korea and Iraq.

Congressional Reaction to China's 1996 Missile "Tests" in the Direction of Taiwan. Following China's firing of ballistic missiles in the vicinity of Taiwan during a Taiwan Strait confrontation in early 1996, Congress acted to support the development and deployment of a missile defense system explicitly oriented towards Asia and the western Pacific. Section 1533 of the FY1999 National Defense Authorization Act (P.L. 105-261, signed into law on October 17, 1998) required the Secretary of Defense to "carry out a study of the architecture requirements for the establishment and operation of a theater ballistic missile defense system in the Asia-Pacific region that would have the capability to protect key regional allies of the United States," and to submit a report to Congress not later than January 1, 1999. The report was to describe any U.S. missile defense system either currently deployed or being developed "that could be transferred to key allies of the United States in the Asia-Pacific region to provide for their self-defense against limited ballistic missile attacks." It was to be submitted in both classified and unclassified versions. Congress clarified the term "key regional allies" in the conference report (H.Rept. 105-736), identifying these as Japan, South Korea, and Taiwan.¹

The Department of Defense (DoD) delivered a 15-page unclassified version of the congressionally mandated Theater Missile Defense (TMD) report in May 1999. The report focused on five ballistic missile defense systems currently under development for U.S. forces, and described options for the defense of South Korea, Japan, and Taiwan against an attack by fewer than five missiles of under 3,500 km (2,170) range. The report assumed that the missiles would not employ special measures to evade destruction, such as the use of decoys or altered trajectories. The unclassified version of the DoD report addressed hypothetical architectures for each country's situation, but did not attempt to suggest or describe any region-wide system architecture, nor did it address the most challenging types of threats.²

Changing Context of Congressional Support for Missile Defense in the 107th Congress. Congress continued to show support for developing and deploying a "theater" level missile defense capability in 2001, but also for more ambitious development objectives that might allow TMD systems—especially the Navy's sea-based TMD capability to serve as a basis for an early national missile

¹ For further background on this legislation and the subsequent Department of Defense report, see CRS Report RL30379, *Missile Defense Options for Japan, South Korea, and Taiwan: A Review of the Defense Department Report to Congress*, by Robert D. Shuey, Shirley A. Kan, and Mark Christofferson.

² *Ibid.*, p. 2-5; U.S. Department of Defense. *Report to Congress on Theater Missile Defense Architecture Options for the Asia-Pacific Region*, May 1999, 15 pp. (Unclassified Version.)

defense capability.³ For instance, on March 28, 2001, Rep. Vitter introduced two related bills expressing strong support for an Asian missile defense capability but also for upgrading the planned speed of the Navy Theater-Wide (NTW) interceptor missile to give it the ability to intercept North Korea's Taepo Dong I missile and Iran's Shahab 5 missile, and requiring the Department of Defense to conduct at least one test against an incoming missile with the flight characteristics, including velocity, of the Taepo Dong I.⁴ Rep. Vitter also introduced a companion bill, the Defense Against Regional Threats Act of 2001, Sec. 2 of which would make it U.S. policy "to provide for deployment as soon as is technically possible of effective missile defense systems capable of defending Israel, Japan, the Republic of Korea, Taiwan, and all member nations of the North Atlantic Treaty Organization against ballistic missile attack." Sec. 3 of the bill would make it U.S. policy "to seek continued negotiated burdensharing agreements with the nations specified in section 2 to share the costs of development and deployment of ballistic missile defense systems."

Both H.R. 1282/1283 appeared to reflected impatience on the part of a number of Members of Congress at the determination of the Clinton Administration to avoid testing or deploying missile defense systems that would violate the ABM treaty. Although neither bill went beyond referral to the Armed Services Committee, the proposed legislation implicitly supported the decision of the Bush Administration to radically revamp the U.S. BMD program, with the goal of applying various ABM technologies across a range of missions, including the early deployment of a capability to defend U.S. territory against limited attacks by intercontinental-range ballistic missiles that might be launched by "rogue" states.

BMD, NMD, and TMD – What is the Difference?

The United States military uses the term Ballistic Missile Defense (BMD) as a generic designation for systems designed to defend against ballistic missiles of whatever range—from short-range "Scud" type missiles to intercontinental ballistic missiles (ICBMs). Thus, both TMD and National Missile Defense (NMD) systems are BMD systems. TMD systems are intended to be deployed in a military theater of operations to defend against short-range and theater-range (up to 3,500 km) ballistic missiles; NMD systems are intended to defend U.S. national territory against continent-spanning missiles, i.e., ICBMs. Currently, both the U.S. Army and the U.S. Navy are developing anti-missile systems for theater-wide defense, but the U.S. Defense Department has chosen the former Navy Theater Wide (NTW) anti-ballistic missile system, now designated Sea-Based Midcourse Defense (SMD), as the most appropriate system for an "Asian" TMD.

³ In February 2001, the House passed a resolution honoring the "ultimate sacrifice" of 28 American service personnel killed in a February 25, 1991, Iraqi Scud missile attack on a U.S. military warehouse in Dhahran, Saudi Arabia. The resolution noted that in the intervening years neither the United States nor its allies had "fielded advanced theater missile defenses," and resolved "to support appropriate and effective theater missile defense programs to help prevent attacks on forward deployed United States forces from occurring again." A nearly identical resolution, S. 19 (Santorum) was introduced in the Senate and referred to the Committee on Armed Services on Feb. 28, 2001, but did not receive further action.

⁴ H.R. 1282, the Realistic Tests for Realistic Threats National Security Act of 2001.

Recent Bush Administration Policy Changes Related to U.S. NMD and TMD Programs

In a series of policy statements beginning with a speech by the President at the National Defense University on May 1, 2001, the Bush Administration indicated an intention to enlarge and redirect current BMD programs in a way that tends to erase the clear distinction between TMD and NMD. The reasoning behind this decision appears to be at least two-fold. First, the relevant technologies are applicable across the whole range of BMD threats. Second, and relatedly, certain programs currently in development for lower tier threats are deemed to have the potential, if suitably enhanced, of serving as a stop-gap, near-term NMD capability in the absence of a full-scope NMD system.

This reasoning applies particularly to the former Navy Theater Wide (NTW) program, which has been the focus of U.S.-Japan TMD cooperation. One possible sea-based option would build upon the technologies being developed in the former NTW program to develop a system that could be deployed on the Navy's Aegis cruisers stationed off the U.S. Pacific coast, with the mission of intercepting ICBMs in mid-course, outside the atmosphere. Another concept is to deploy a sea-based system in the Sea of Japan with a capability to intercept North Korean intercontinental missiles in their ascent, or "boost" phase, when they are most vulnerable.⁵ A more technologically ambitious concept under active consideration involves deploying aircraft with laser systems capable of destroying missiles in their boost phase.

This report discusses and analyses the Administration's approach to missile defense and its implications for U.S.-Japan cooperation on missile defense, but the report's point of departure is the traditional delineation of types of anti-missile systems based on the characteristics of the specific ballistic missile threats that they seek to counter. In other words, the main ballistic missile threat to U.S. forward-deployed forces in the Asia-Pacific region, and to Japan, South Korea, and Taiwan, is from short- and medium-range, or "theater" range ballistic missiles.

Continuing Technological Distinctions

Another reason not to lose sight of the NMD/TMD distinction is that from a technological perspective, the challenges involved in attacking ICBMs and theater-range missiles remain markedly different. Even though some of the technology being developed in the NTW program would be relevant to the defense against strategic missiles, the design characteristics for Standard SM-3 interceptor missile being developed for the NTW are deficient in speed and range for the task of intercepting an ICBM. This is especially the case if the interceptor missile is launched from a position that requires it to chase down an ICBM from behind.⁶ Hence, if the United

⁵ Steven Lee Myers and James Glanz, Taking a Look at the Workings of a Missile Shield. *New York Times*, May 3, 2001: A10.

⁶ By way of comparison, the standard trajectory apogee of a medium-range ballistic missile with a target range of about 1,000 kilometers is about 300 kilometers, somewhat higher than the orbit of a Space Shuttle flight, while an ICBM traveling 10,000 miles to target reaches an altitude of about 1,000 kilometers. An ICBM warhead also reenters the atmosphere at a much

States decides to deploy a sea-based system to protect the United States against ICBMs in their mid-course or terminal phase, it may have to develop a more capable interceptor missile than is currently being developed to defend U.S. ships, bases, and port facilities against short-and medium-range ballistic missiles. In addition to having a higher velocity and longer range, the job of intercepting and destroying an ICBM may require a different kinetic kill vehicle (KKV) – the cannister-shaped projectile that smashes into the missile warhead. It also may need an upgraded sensor.

How challenging this requirement would be is a matter of some dispute. Critics of the Clinton Administration's approach to TMD argued that the designed velocity of the interceptor missile had been artificially kept below 5 km/second in order to comply with 1972 Anti-Ballistic Missile (ABM) Treaty with the former Soviet Union. They asserted that with relatively minor technical changes the planned velocity of interceptor missile could and should be upgraded to better deal both with medium-range missile threats as well as ICBMs.⁷ Others, including some supporters of an early national or global defense capability based on the NTW/SMD technology, are convinced that intercepting an ICBM will require a larger and faster missile than can be achieved by upgrading the Navy's Standard missile.⁸

As for other proposed "contingency" BMD systems aimed at defending U.S. territory against strategic missiles, the relevance of the current technology cooperation between the United States and Japan is unclear. Some analysts argue that in theory, attacking missiles close to the point of launch – as in the proposed boost-phase interceptor – would require different sensors than those being designed for the SMD. In action on the FY2002 defense authorization bill, both the House and Senate Armed Services Committees reduced the Defense Department's request for boost-phase interceptor testing on grounds that the concept design had not been completed. The Senate Report noted that "Boost-phase technology is extremely challenging"⁹ Reportedly, the Department of Defense plans to seek Japanese cooperation on a Sea-based boost-phase interceptor in order to gain access to Japanese sensor and early detection technology,¹⁰ but such intention is not mentioned in the FY2003 Budget Justification of the Missile Defense Agency that was released at the end of February 2002.¹¹

higher speed. Okazaki Institute, *Introduction to BMB: Does Ballistic Missile Defense Make Sense for Japan?* Tokyo, 2001. P. 13-15.

⁷ Baker Spring, *Maintaining Momentum for Missile Defense*. The Heritage Foundation, Backgrounder, No. 1288, June 1, 1999.

⁸ Henry F. Cooper and J. D. Williams, The Earliest Deployment Option – Sea-Based Defenses. [Guest Perspective] *Inside Missile Defense*, Sept. 6, 2000. Internet version available at [http://www.highfrontier.org/earliest_deployment_090600.html]

⁹ H.Rept. 107-194 on the FY2002 Department of Defense Authorization bill (H.R. 2586), dated Sept. 4, 2001, and S.Rept. 107-62 on S. 1416 (succeeded by S. 1438), Sept. 12, 2001.

¹⁰ Pentagon Will Ask Japan to Work on Boost-Phase Missile Interceptors, *The Daily Japan Digest*, Jan. 17, 2002: 2.

¹¹ Department of Defense, Missile Defense Agency, *Fiscal Year (FY) 2003 Budget Estimates*, February 2002.

Cancellation of the Navy's "Lower-Tier" Missile Defense Program

Until the end of 2001, the U.S. Navy had been developing two missile defense systems for shipboard deployment. Both were intended to defend against short- and medium-range ballistic missiles, but at different points in their flight path. The Navy Area Defense (NAD) system, was to be the Navy's "lower tier" BMD program, providing local-area defense against ballistic missiles by intercepting them within the atmosphere. The NAD was roughly analogous to the Army's Patriot-3 (PAC-3), also a lower tier system to protect military forces against high value targets from short- and medium-ballistic missiles, such as the ubiquitous Scuds and their variants. The NAD was cancelled by the Pentagon in December 2001 because of poor performance of components and related unit cost increased which exceeded limits established by Congress. The Defense Department declined to use its authority to certify the program for continued funding.¹² Cancellation of the NAD leaves the Navy, for the moment, anyway, without any program under development to provide "lower tier" defense against ballistic missiles, and none against cruise missiles.¹³

The second Navy missile defense program, now called Sea-Based Midcourse Defense (SMD), which has been the object of U.S.-Japan cooperation, remains intact and may be accelerated. There are, however, several uncertainties about the future of this system. One is technological. The basic building block of the SMD is the same Standard Missile that was to be employed by the NAD, but with much higher performance characteristics than the cancelled lower tier system. Also, the former NTW had been described as "the least mature" of the various systems under development by the Pentagon by one expert.¹⁴ Another uncertainty arises from the determination of the Pentagon's Ballistic Missile Defense Office (BMDO) – redesignated the Missile Defense Agency (MDA) in January 2002, to acquire an early sea-based NMD capability, and the eagerness of the Navy to provide the platform for an NMD capability. These changes raise some questions about organizational lines of control between the MDA and the Navy, and mission priorities.

Navy plans had called for the NTW system to enter service around FY2010. As of February 2002, the Pentagon anticipates that the Sea-Based Midcourse System could achieve initial capability for short- and intermediate-range sea-based missile defense by about 2006, with an ICBM capability to come several years later.¹⁵ In the

¹² For details see the section on the NAD cancellation authored by Ronald O'Rourke in CRS Report RL31111, *Missile Defense: The Current Debate*, coordinated by Steven A. Hildreth and Amy F. Woolf. See also U.S. Department of State, International Information Programs, Defense Department Cancels Navy Area Missile Defense Program, News Release, Dec. 14, 2001.

¹³ James Dao, Navy Missile Defense Plan is Canceled by the Pentagon. *New York Times*, Dec. 16, 2001: 34.

¹⁴ Dean A. Wilkening, Ballistic-Missile Defense and Strategic Stability, International Institute of Strategic Studies, Adelphi Paper 334, p. 47.

¹⁵ Testimony of Lt. Gen. Ronald T. Kadish, USAF, Director, Ballistic Missile Defense Organization (BMDO) (now the Missile Defense Agency), on The Ballistic Missile Defense Program, Amended FY 2002 Budget, Before the Senate Armed Services Committee, July 12,

past, these estimates have been subject to considerable change, depending on test results and other factors.

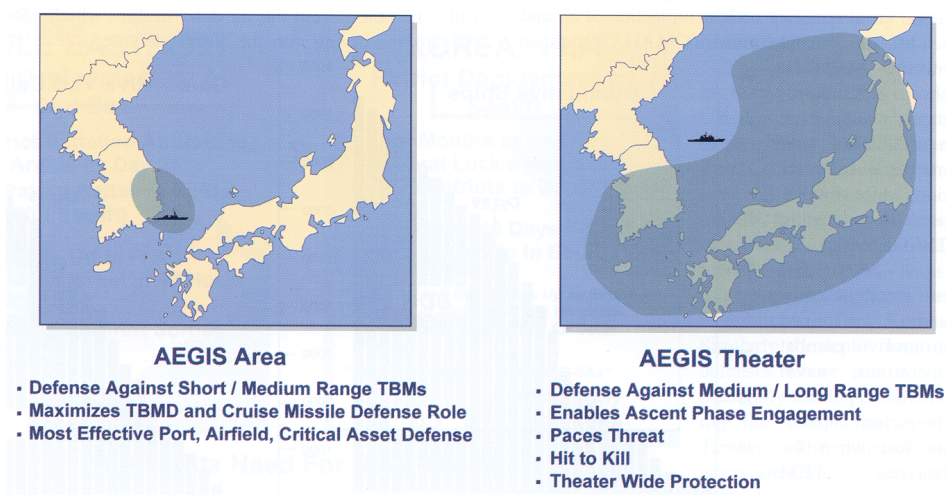
The program called Sea-Based Midcourse Defense (SMD) is designed to achieve a capability to intercept short- and medium ballistic missiles in mid-course or in their early terminal phase, and to defend a much larger geographic area than the canceled NAD. The SMD is designed to intercept enemy missiles at altitudes above the atmosphere (i.e., exo-atmospheric intercept) and destroy them with a hit-to-kill kinetic kill vehicle (KKV) called the Lightweight Exo-Atmospheric Projectile (LEAP).

Intercepting a ballistic missile in midcourse, i.e. above the atmosphere, requires different technology than intercepting a missile in its terminal phase, when it has reentered the atmosphere. A missile within the atmosphere follows a flight path that is affected by air pressure on its reentry vehicle (nose cone with warhead), whereas a missile in mid-course—above the atmosphere—follows a more predictable ballistic trajectory.

Figure 1 shows the different areas of coverage that would be provided by the now-cancelled NAD system—or any replacement terminal missile defense system, and the Sea-Based Midcourse Defense system. If the latter achieves its design objectives, an appropriately positioned Aegis-equipped ship deploying the SMD could – for instance – shield most of Japan from an attack by a North Korean missile.

Figure 1. Comparison of Coverage of Former Naval Area Defense (NAD) and AEGIS Theater Ballistic Missile Defense (Formerly Designated Navy Theater Wide (NTW) and Now Designated Sea-Based Midcourse Defense (SMD))

(Source: Department of the Navy)



Evolution of Japanese Interest in Ballistic Missile Defense Cooperation

Japanese interest in U.S. missile defense programs dates from the mid-1980s, when the Department of Defense solicited participation by allied countries in the Reagan Administration's Strategic Defense Initiative (SDI), partly in order to bolster congressional support for the program. Japan declined to participate but did partly relax its post-World War II arms export ban to open the way for sharing military and dual use technology with the United States. Subsequently, Japan shared technology with the United States for several weapons systems, including portable surface-air missile (SAM) systems, naval ship construction, a ducted rocket engine, and the controversial FS-X, next-generation fighter program.

The FS-X collaboration, which involved transfer of technology used in the USAF's F-16 fighter, produced by what was then General Dynamics, proved a searing experience for the Japanese. It is widely accepted among students of US-Japan alliance relations that the Japanese government, backed by domestic industry and influential Diet Members, strongly preferred to develop an indigenous fighter aircraft to replace its ageing fleet of F-1 fighters, but decided reluctantly that the maintenance of smooth alliance relations required yielding to pressure from the Reagan Administration for co-development. Among other considerations for the Nakasone government in Tokyo, the Reagan Administration had imposed stiff sanctions on semiconductor imports as a result of Japan's failure to meet the terms of a trade agreement, and Members of Congress were strongly criticizing Japan and the Toshiba Corporation for the sale of some sensitive U.S. metal milling technology to the then-Soviet Union.¹⁶

Japan had barely signed the Memorandum of Understanding on the FS-X co-production deal when it was whipsawed by a high profile U.S. policy debate involving industry and labor interests, Members of Congress, the U.S. Commerce Department, and others, over the wisdom of technology cooperation with the United States' main high tech competitor. Opponents of the FS-X cooperation deal were concerned that Japan might use U.S.-supplied technology to erode the U.S. lead in aerospace production, one of the few areas of U.S. high technology dominance that had not been conquered by Japanese industry. In early February 1989 the newly inaugurated George H. W. Bush administration yielded to these pressures and initiated a policy review that eventually required Japan to renegotiate the terms of technology transfer in the co-development project.¹⁷ The product of the latter

¹⁶ Neil Renwick, *Japan's Alliance Politics and Defence Production* (St. Martin's, 1995): 99-103.

¹⁷ Japan Defense Agency, *Defense of Japan*, 1993, p. 73-74. In late November 1988, the United States and Japan had agreed to terms of technology transfer and work sharing on a new aircraft to be designed using the basic airframe of the U.S. F-16 fighter, built by General Dynamics. Following objections from the Commerce Department and Members of Congress that the agreement might help Japan erode U.S. civil aerospace leadership, the first Bush Administration conducted an interagency review and then negotiated "clarifications" from the Japanese aimed at protecting U.S. industrial base and commercial interests. An effort by Congress to kill the project failed narrowly, when the Senate upheld a presidential veto of the

collaboration has entered service with the Japanese Air Self-Defense Force as the F-2 Fighter, after long delays and huge cost overruns.

Negative Effect of the FS-X Joint Development Program

The FS-X collaboration proved highly frustrating both to Japan and to the Department of Defense and U.S. defense contractors because technology transfer issues had become entangled in the political reaction to the large U.S.-Japan trade deficit. Whatever the merits of the objections of U.S. critics, the experience created an aversion in Japan to joint development and production agreements with the United States, and bolstered the case of proponents of national self-sufficiency in defense production. The frustrating FS-X experience, as will be seen, could play a significant role in future Japanese decisionmaking regarding the acquisition of a BMD capability.

Japanese Participation in the WestPac Study

In 1990, notwithstanding Japan's dissatisfaction with cooperation on development of the FS-X fighter, Japanese and U.S. industries initiated a major missile defense system study under the SDI initiative entitled Western Pacific Basin Architecture Study (WestPac). The Japanese government kept its role to the minimum in this four-year study to avoid sensitive political issues such as the weaponization of space and nuclear weapons related research associated with the so-called "Star Wars" program of the Reagan Administration. Additionally, some sources say that the Japanese government was wary of U.S. interest in Japanese technology, and concerned that the United States might try to pressure Japan to purchase a missile defense capability "off the shelf" as a means of partially redressing the large U.S.-Japan trade deficit.¹⁸ Subsequent to the completion of the WestPac study in October 1994, the United States and Japan embarked on a "Bilateral Study on BMD" to better understand the ballistic missile threat to Japan and to study alternative architectures for a Japanese missile defense system. A BMD Study Office was established within the Japan Defense Agency (JDA), and Japan's activities and R&D spending, while modest by U.S. standards, began to increase steadily.

Growing Japanese Concerns About Proliferation of Ballistic Missiles in Asia

One factor influencing Japan to participate in the WestPac Study was growing concern about China's medium range CSS-2 and CSS-5 medium-range ballistic missiles.¹⁹ North Korea's expanding missile capabilities also long have been a concern to Tokyo. Even before it introduced ballistic missiles with on-board guidance systems

relevant legislation (S.J.Res. 113), by one vote. CRS Report 90-309, *Japanese FSX Fighter Controversy*, by Richard Grimmett; and GAO, U.S.-Japan Codevelopment: Update of the FS-X Program. GAO/NSIAD-92-165, June 1992.

¹⁸ Patrick M. O'Donogue, *Theater Missile Defense in Japan: Implications for the U.S.-China-Japan Strategic Relationship*. Strategic Studies Institute, Army War College (Carlisle, PA), Sept. 2000: 5.

¹⁹ For more information see CRS Report 97-391, *China: Ballistic and Cruise Missiles*, by Shirley Kan.

in the early 1990s, Pyongyang test-fired Scud-B missiles with ranges of 250 km to 300 km in the Sea of Japan. Concern about North Korea's missile capability grew significantly with the test firing of North Korea's No-Dong 1 missile in May 1994. The No-Dong 1 was a new and more threatening ballistic missile with an estimated range of about 1,000 km – enough to threaten most of Japan, including major population areas and key U.S. and Japanese military bases.²⁰

North Korea's Taepo Dong-1 Missile Launch – Its Impact upon Japan's TMD Policy

Despite pre-existing missile threats, it was North Korea's test-firing of its Taepo Dong-1 ballistic missile in August 1998 that ignited public concern about the country's vulnerability to ballistic missile attacks. The solid-fuel three-stage missile launching illuminated Japan's vulnerability to North Korea's missile threat, as its third stage flew over Japan and landed in the Pacific Ocean. Japan's 1999 Defense White Paper dedicated separate sections to the Taepo Dong incident of 1998, and devoted five times more pages to North Korea's military affairs than previous white papers.²¹ Subsequently, national sentiments against the missile launch and regional missile proliferation pushed the TMD issue to the center of a growing policy debate in Japanese society, where public discussions of military issues generally had been avoided since the end of the World War II.

In December 1998, about four months after North Korea launched a Taepo Dong-I ballistic missile that passed over Japanese territory, the Japanese government made an internal decision to engage with the United States in cooperative research and development of a ballistic missile defense system. Less than a year later, in August 1999, the U.S. and Japanese governments signed a memorandum of understanding (MOU) covering a five-year program of joint research and development on the then U.S. Navy Theater Wide (NTW) ballistic missile defense program, but Japan has made no decision about acquisition of a missile defense capability and current constitutional interpretations appear to rule out the integration of any such Japanese capability with that of the U.S. Navy.

Implications of the Bush Administration's Redirection of the U.S. Approach to Missile Defense on U.S.-Japan Cooperation

The decision of the Bush Administration in the Summer of 2001 to eliminate the distinction between national missile defense and other BMD programs, and to redesignate the NTW project as the sea-based "mid-course" defense element of a seamless BMD capability, has created additional uncertainty in Japan about the benefits and constitutionality of participating in joint missile defense technology research. In particular, the Japanese government has serious qualms about the constitutionality of cooperating on the development of technology that effectively could become part of a system to defend U.S. territory from third countries. Japan's

²⁰ See CRS Report RL30427, *Missile Survey: Ballistic and Cruise Missiles of Foreign Countries*, by Robert Shuey, p. 9-16.

²¹ Agency Warns of N. Korea's Missile Program. *The Daily Yomiuri* in English, July 28, 1999: 1.

constitution established the right of collective self defense under international law, but disallows the exercise of that right. (See a fuller discussion of this issue below.)

To date these changes in the U.S. program have created consternation, but have not affected Tokyo's interest in cooperation. For the time being, Japanese officials have avoided addressing the collective defense issue arising out of the changed U.S. missile defense strategy and have concentrated on protecting Japan's option to acquire a BMD capability. Towards that end, Japan has continued to budget funds for BMD cooperation in line with an existing five year plan, and also committed funds to acquire the technology that could support a BMD capability on the two new Aegis destroyers that are under construction.²²

Significance of Japanese Cooperation on BMD

Japan inevitably will play a key role in the ability of the United States to deploy a BMD system in Asia, either to protect U.S. forces or to shield American allies and friends. The exact nature of Japan's role, however, is highly dependent on still unpredictable political and national security policy factors. Under different scenarios, Japan's role could greatly enhance the effectiveness of an American missile defense capability, passively support it, or, under certain circumstances, seek to impose restraints on U.S. options.

Geographical Centrality and Military Potential

Japan is host to the U.S. 7th Fleet on whose AEGIS cruisers the U.S. Navy plans to deploy a sea-based BMD system. Because of its location, Japan's participation would be especially important if the United States were to seek to develop an integrated regional missile defense architecture, since a sea-based capability against medium-range missiles, if deployed in the Japanese Islands, could put a defensive umbrella over Japan, South Korea, and Taiwan. The Sea of Japan would be an ideal location for the deployment of a boost-phase intercept capability to guard against missile launches from North Korea, while a capability deployed in or near the southern Japanese Islands, such as the U.S. Navy Base at Sasebo, on Kyushu, would be well-positioned to intercept missiles launched from coastal China. In addition to its favorable geographic location, Japan's sophisticated communications infrastructure, and possession of Aegis-equipped vessels with the capability of sharing data with U.S. counterparts, make it a potentially valuable collaborator.

²² *Tokyo Shimbun*, August 17, 2001: 1; *Xinhua News Agency* (China) (from Japanese *Kyodo News*), Dec. 24, 2001.

**Figure 2. Japan and East Asia
(Distances in 500 Km Increments)**



Potential Technological Contribution

Japan's potential technological and financial contributions to the NTW program are less clear-cut. Department of Defense officials stress that Japan has technologies that could make an important contribution. Some non-governmental analysts with knowledge of the technologies involved tend to describe the potential Japanese contribution more in terms of technology risk reduction. Reportedly, as of early 2002, the Pentagon intends to seek expanded Japanese cooperation, including research and development work on a boost-phase interceptor. The Pentagon is said to be particularly interested in Japanese sensor and early detection technology, since different technology may be required for boost-phase intercept than the sensor technology employed in the Navy's upper-tier SMD system.²³

Financial Contribution

Japan's financial participation in the research and development phase is modest – only a fraction of U.S. spending on the SMD program – but Tokyo's financial contribution could be significant if it chooses to deploy a BMD capability by

²³ *The Daily Japan Digest*, January 17, 2002: 2.

purchasing U.S. missiles and other components. In the words of the U.S. Missile Defense Agency budget request to Congress for FY2003, “the project leverages the established and demonstrated industrial and engineering strengths of Japan and allows a significant degree of cost sharing.”²⁴ Japan’s financial contribution would be most important if it decided to purchase U.S. hardware, but less so if it only participates in the research and development phase or uses jointly developed technology to build its own missile defense system.

For fiscal year 2002, which begins April 1, 2002, the Japanese Diet has appropriated about 6.9 billion yen (\$53.1 million at ¥ 130/US \$1) for design and trial manufacturing activities. Because of changes in the trial manufacturing program and budgetary constraints, the Japanese Defense Agency (JDA) request was cut by ¥ 1.3, or about \$100,000.²⁵ U.S. Department of Defense spending specifically for the Japan/U.S. Cooperative BMD Research Project program element will total \$37.6 million in FY2002. For FY2003, the Defense Department has requested \$31.9 million for the same program element.²⁶

Conflicting U.S. Perspectives on Missile Defense Cooperation with Japan

Despite strong support for the program among officials concerned with alliance relations both in the Department of State and the Department of Defense, some in the Pentagon’s Missile Defense Administration (MDA) reportedly have opposed to research and development cooperation with Japan. Opposition in the MDA appears related to the comparatively small payoff that some expect from Japan as compared with the bureaucratic and other complications inherent in joint bilateral cooperation. The Bush Administration and its predecessors, and the U.S. Navy, on the other hand, have consistently viewed Japanese participation in the U.S. missile defense program as a potentially significant “alliance builder” and force capability enhancement. In response to the alleged lack of support for joint development in the then BMDO, Deputy Secretary of Defense Paul Wolfowitz reportedly issued a program budget decision (PDB) on December 9, 2001, directing the organization to continue the cooperative effort and include funding as a separate line item in the FY2003 budget.²⁷ (See more details in section on the status of the program, below.)

Current Status of BMD Cooperation

The North Korean missile launch brought about a breakthrough in Japan’s consideration of the long-standing U.S. request for joint cooperation on BMD research and development. The Japanese Defense Agency already favored cooperation, but the effect of the Taepo Dong missile flying over the main island of

²⁴ U.S. Department of Defense, *Missile Defense Agency, Fiscal Year (FY) 2003 Budget Estimates*. February 2002, p. xiii.

²⁵ E-mail from Japan Defense Agency official, March 5, 2002.

²⁶ DoD Missile Defense Agency Budget Presentation, February 2002.

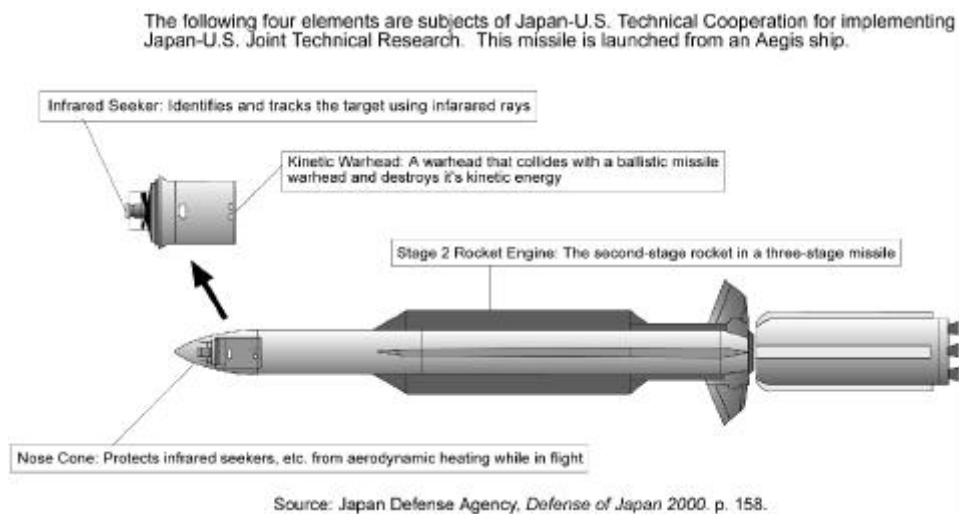
²⁷ OSD Keeps Alive Navy Theater-Wide, Inside the Navy, Dec. 17, 2001.

Honshu greatly raised the level of interest within the Japanese government and among the public.

Agreement on the Joint Technology Research

In December 1998, the two governments agreed on the Naval Theater Wide (NTW) system concept as the architecture for which they would jointly conduct analysis, preliminary design, and certain risk reduction experiments.²⁸ The four components selected for joint research are: lightweight nose cone; stage-two rocket engine; advanced kinetic warhead; and two-color infrared sensor. These are consistent with the risk reduction initiatives that have been pursued by the U.S. Navy for its BMD systems. A substantial Japanese contribution is expected on sensors and advanced kinetic warheads. The NTW/SMD also is seen as a natural choice for the joint research, since Japan already possesses four Aegis-equipped destroyers that could be upgraded with a BMD capability.²⁹ In fact, the Japanese government has earmarked funds for two additional Aegis destroyers with enhanced electronics and radar systems in the next Mid-Term Defense Program covering fiscal years 2001-2005, with an eye towards acquiring a sea-based TMD capability.³⁰

Figure 3. Japanese Participation in NTW/Sea-Based Midcourse Interceptor Missile



Possible U.S. Request for Expanded Cooperation. On June 4, 2001, the Japanese press reported that the United States had asked Japan for additional cooperation on BMD research and development related to interceptor ship-borne radar tracking technology. Reportedly the U.S. request was related to U.S. national missile defense, not just TMD. Because of the ban on collective self-defense and

²⁸ For details and sources, see Memo for Correspondents No. 134-M. The Department of Defense. August 16, 1999.

²⁹ Interview with U.S. government officials and an industry representative. July 2000.

³⁰ Government Eyes Introducing 2 Aegis Ships for TMD Shield. *Yomiuri Shimbun*, Dec. 9, 2000: 2.

budgetary constraints, Japanese officials were said to be “divided over how to respond” to the U.S. request.³¹ As of March 2002, no concrete information about expanded BMD research and development has emerged in public sources. Accounts of the Bush-Koizumi summit meeting in mid-February suggest that the leaders discussed the issue of BMD cooperation, but only in general terms.

Japanese Perspectives on TMD

Because of the implications for Japan’s relations with the United States and the People’s Republic of China, which opposes many aspects of U.S.-Japan defense cooperation, the issues of whether Japan will acquire a missile defense capability and the extent to which such capability would be integrated with that of the U.S. Navy, have assumed major national policy significance for Tokyo. Because of the stakes, Japanese views on the development and deployment of a TMD system vary widely, even within government and political circles. These differences appear deep enough to make the political uncertainties surrounding TMD cooperation as significant as the technological challenges.

Japanese Government Perspectives

During the early years of joint U.S.-Japan initiatives on BMD, support within the Government of Japan (GOJ) was tentative and sporadic, with the strongest advocacy coming from within the Japan Defense Agency (JDA). However, the JDA position found increasing support after North Korea’s Taepo Dong launch. Some note that the Ministry of Foreign Affairs (MOFA) still offers only a reserved support, for it is concerned that Japan’s TMD deployment would negatively affect the future of Japan-China relations. The Ministry of Finance (MOF) traditionally has been especially reluctant to commit funds for a program with no reliable long-term cost estimate nor duration of the program,³² but nonetheless agreed to a multi-year commitment once the program became a high priority to the Prime Minister and defense policymakers. The MOF has agreed in principle to allow expenditures anticipated in the current Five-year Defense Program Outline.³³

Constitutional Considerations and the Implications of the New U.S. BMD Policy

Blurring the lines between national and theater missile defense has added to the Government of Japan’s burden of selling TMD cooperation to a skeptical Japanese public, particularly with regard to public attitudes towards arms control and the constitution. Two aspects of the Bush Administration’s new BMD strategy could have significant implications for future Japanese missile defense cooperation.

³¹ Pentagon Asks Defense Agency to Expand Missile Defense Research. *The Daily Japan Digest*, June 4, 2001: 3.

³² Interview with a senior Japanese official with responsibility for U.S.-Japan alliance relations, in Tokyo, September 1998.

³³ Conversation with Japan Defense Agency officials in Washington, DC, March 6, 2002.

ABM Treaty. One aspect is the fact that a sea-based system designed to attack ICBMs violates the 1972 ABM Treaty – a reality graphically acknowledged by the Bush Administration’s decision to exercise the U.S. right to withdraw from the treaty. Japan was not a party to the treaty but has regarded the agreement as a fundamental pillar of nuclear stability. The abandonment of the treaty by the United States troubled Japan, but – ironically – also removed one barrier to participation.

Ban on Collective Defense. Second, any use of Japanese technology for an American NMD system would violate both Japan’s post-World War II anti-nuclear policy, which forbids participation in U.S. nuclear strategy, and a long-standing legal interpretation that Article 9 of the Japanese constitution forbids participation in collective self-defense. Under this interpretation, formulated by the Cabinet Affairs Legal Office in 1981, it is acknowledged that Japan has such a right under international law, but cannot exercise it because the constitution provides that the exercise of the right of self-defense must be limited to the minimum level necessary to defend Japanese territory.

The U.S.-Japan Security Treaty is deemed constitutional under this interpretation because Japan’s responsibilities relate only to the defense of Japan itself. Japan is not obligated under the U.S.-Japan Defense Treaty to participate in the defense of the United States or U.S. forces, let alone participate in security cooperation involving third countries.³⁴ Thus, under present and foreseeable circumstances, only a system that is designed for the defense of *Japanese* territory and is not in violation of the ABM Treaty would appear to be able to pass political and constitutional muster.

Japanese officials, political leaders, and opinion makers have universally expressed concern about the new U.S. approach to missile defense. During a visit to Japan in early May 2001 to brief Japanese leaders on the Bush Administration’s new policy, Deputy Secretary of State Richard Armitage reportedly received an ambiguous response. Japanese leaders expressed their “understanding” of the U.S. position – a classic Japanese formulation for avoiding assent. Japanese officials appeared to agree with the view of Japanese defense analysts who complained that supporting the U.S. initiative would link Japan to U.S. global nuclear strategy in a way that was incompatible with Japan’s non-nuclear principles.³⁵

For the time being, the Japanese government has indicated that the new Bush Administration strategy will not affect joint research and development activities on the NTW interceptor, and also that Japan’s stance may be more relaxed than originally suggested. In a May 9, 2001 press article, a senior official of the Japan Defense Agency (JDA) reportedly explained, “We can understand U.S. thinking about regarding NMD and TMD as a comprehensive package, but our position will not change: we will only carry on joint research on the TMD.” The same article expressed the Japanese government’s position that Japan could give no more than

³⁴ See discussion of this issue in the annual Japanese Defense Agency white paper, *Defense of Japan 2000*, p. 63-64.

³⁵ Doug Struck, Asian Allies See Hazards Ahead. *Washington Post*, May 3, 2001: A16; Japan’s Response to U.S.’ NMD Concept Remains Unclear, *Asahi Shimbun*, May 9, 2001: 2.

“moral support” by expressing “understanding” of the U.S. NMD program, since it was for the purpose of defending the United States and not Japan.³⁶ The Director General of the Japan Defense Agency (JDA), told reporters on May 11 that “The United States has just completed producing a blueprint, and it is too early to assess it at this point.” Reportedly, however, a senior official of the JDA judged that regardless of the decision of the Bush Administration not to distinguish between NMD and TMD, it was a “fact” that there was “a clear difference in technologies between long- and short- range missiles.” In any event, the official said, Japan’s research cooperation would continue.³⁷

Political Parties³⁸

The stance of Japan’s political parties on missile defense cooperation underscores the depth of feeling against missile defense cooperation, especially at present, when Koizumi’s Liberal Democratic Party (LDP) depends on two coalition allies to sustain its legislative program. Throughout most of the post-World War II era, the long-ruling LDP was the only political party in Japan that supported a strong military capability and the alliance with the United States. The party fractured in July 1993 and currently lacks a majority in the upper house of the Diet (parliament) and only a bare majority in the lower house. (See **Figure 4.**) The Koizumi-led LDP retains power by virtue of a coalition with the New Komeito and the tiny New Conservative Party, an LDP splinter group.

Several bi-election victories in October 2001 allowed the LDP to regain a majority in the 480-seat Lower House, but the party still lacks a majority in the Upper House, which is less powerful but still necessary to pass legislation. Consequently, it remains dependant on its two coalition partners to be assured that legislation will pass.

Stance of the LDP and its Coalition Allies. The missile defense issue is a sensitive one for the LDP-led coalition government. The LDP itself generally remains broadly supportive of the U.S.-Japan alliance, but an ideologically nationalist wing increasingly has expressed the desire for a more self-sufficient defense posture. The party’s mainstream factions appear to have become increasingly more conservative as a result of defections by centrist members and seat losses in urban areas, a development with mixed implications for U.S.-Japan alliance relations. Generally, the LDP works closely with officials in the Ministry of Foreign Affairs and the Japan Defense Agency, both of which are strongly pro-alliance, but its positions are constrained by the need to placate its New Komeito coalition ally, a small but a well-organized and disciplined party that is affiliated with the Buddhist *Soka Gakkai* (“Value Creation Society”) organization. The New Komeito generally supports the

³⁶ *Asahi Shimbun*, May 9, 2001: 2.

³⁷ Defense Agency Eager to Fathom America’s True Intention Behind its Missile Defense System. *Yomiuri Shimbun*, May 16, 2001:15.

³⁸ For more detailed background on Japanese politics see CRS Issue Brief IB97004, *Japan-U.S. Relations: Issues for the 107th Congress*, coordinated by Richard P. Cronin. Updated regularly.

status quo on domestic social issues but traditionally has strongly opposed the expansion of the role of the Japanese military.

Both the tiny Conservative Party, which is currently part of the governing coalition, and the small Liberal Party, headed by a conservative former LDP leader, Ichiro Ozawa, support missile defense cooperation. Ozawa has progressively lost public and political support since he played a key role in splitting the LDP in 1993 and later splitting the successor non-LDP coalition, but his well-articulated defense and foreign policy positions command considerable respect. His position, which seems colored by his own political agenda, is that the line against collective defense should be addressed directly via constitutional change, rather than by a formal or de facto reinterpretation.

Beginning with the North Korean Taepo Dong launch in August 1998, and continuing since the September 11, 2001, terrorist attacks on the United States, a number of political parties have begun to re-examine their defense policy positions. Several have agreed on the necessity for some measures to strengthen alliance cooperation and Japan's own defense capabilities, but not necessarily to the extent of acquiring a BMD capability. The New Komeito, for instance, reportedly has acknowledged the possible deterrent value of BMD-related technology cooperation with the United States.³⁹

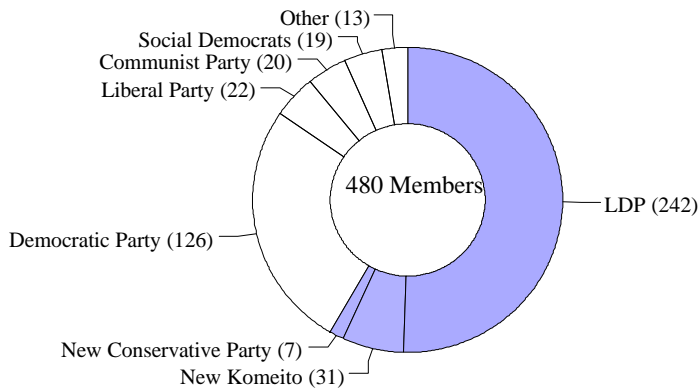
Ambiguous Stance of the Opposition Democratic Party. The leading opposition party, the *Minshuto*, has kept its missile defense policy ambiguous. As it consists of both former members of the LDP and the Japan Socialist Party (JSP), the *Minshuto* is careful not to create an internal rift over the TMD issue. The attitude of the *Minshuto* could be the most uncertain factor in Japan's decision on the deployment of a missile defense system.

Parties on the Left. The strongest opponents of missile defense cooperation include the Japan Communist Party and the Japan Social Democratic Party (JSDP), formerly the Japan Socialist Party (JSP). Japan's major opposition party until the early 1990s, the Socialists have abandoned their past opposition to the alliance but still oppose the expansion of the role of the Self-Defense Forces. Despite their efforts to adjust to the post-Cold War era, the Socialists have steadily lost support and are now a marginal political force.

³⁹ *Handbook for Defense 2000*. Tokyo, Asagumo Shimbunsha, 2000, p. 726.

Figure 4**Lower House Composition**

Color Slice = Ruling Coalition Member



(Prepared by Mark Manyin, Foreign Affairs, Defense, and Trade Division, CRS)

Japanese Industry

Despite some bitter experiences in defense technology cooperation with the United States, notably negative impact of cooperation on the FS-X fighter program noted above, Japanese defense industry appears generally enthusiastic about joint cooperation on missile defense. Apart from the goal of acquiring valuable technology, Japanese defense contractors are eager to find new business after more than a decade of little or no national economic growth.⁴⁰ Believing that Japan alone is unlikely to develop its own BMD systems, companies that engage in defense work reportedly see cooperation with the United States as a rare opportunity for large-scale contracts.⁴¹ This applies especially to Japan's largest defense contractors, notably including Mitsubishi Heavy Industries, the primary BMD contractor, and electronics companies that produce related equipment such as Aegis radar components, satellites, and telecommunications gear.

Because of the FS-X experience, Japan's defense industry is expected to prefer license production or co-production to preserve its industrial base, and oppose off-the-shelf purchase from the United States. At one point some manufacturers of civilian, dual-use high technology reportedly were uneasy about cooperation on the BMD systems out of concern that such cooperation may harm their corporate image.⁴² With the deepening of Japan's economic slump, however, and changing public attitudes towards defense issues, these concerns are not likely to deter industry participants.

⁴⁰ Interviews with U.S. government officials and others, July 2000.

⁴¹ Interview with U.S. industry representative, July 2000.

⁴² Challenges for the Japanese Defense Industry, by Yutaka Hineno. Published by Japanese *Keidanren* (an association of industries), November 1, 1994.

Media/Public Opinion

Since the Taepo Dong launch, the Japanese media have shown unprecedented interest in covering BMD-related issues. The *Yomiuri Shimbun*, a daily paper with the largest circulation, and *Sankei Shimbun*, and the *Nihon Keizai Shimbun* are three major newspapers that traditionally support the country's military programs. Their positions on BMD are no exception.

In the aftermath of North Korea's Taepo Dong launch, the *Yomiuri* editorially urged the governments of Japan and the United States to expedite their cooperation on BMD research and development.⁴³ More recently, following ambiguous indications that North Korea might be prepared to give up its missile development program, the *Yomiuri* editorialized that North Korea's existing shorter-range Nodong missiles also were a problem that Japan had to deal with, even if some countries objected to Japan's acquisition of a missile defense capability.⁴⁴ The *Sankei* has advocated Japan's timely participation in the BMD deployment to deter missile attacks and provide the public with a greater sense of security.⁴⁵

On the opposition side is *Asahi Shimbun*, another major daily newspaper in Japan with a more "liberal" stance and more critical view of government actions and policies than most of the major newspapers. *Asahi* has repeatedly warned that participating in the U.S. BMD program would greatly strain Japan's relationships with China and Russia.⁴⁶

Media support for missile defense appeared to soften somewhat following President Bush's May 1, 2001, speech outlining the Administration's more comprehensive concept of national missile defense. Predictably, the *Asahi* pointedly underscored the discomfort of Japanese officials about blurring the distinctions between BMD and NMD by the United States, and editorialized that Japan should clearly reject the U.S. missile defense proposal.⁴⁷ Even the generally conservative *Yomiuri* indicated a more cautious stance, noting the costs and technological challenges of the joint BMD project, and calling on the Japanese government to seek additional information from the United States about its revised approach to missile defense.⁴⁸ Going against this trend, the *Nihon Keizai Shimbun*, Japan's counterpart to the *Wall Street Journal*, noted various objections to acquiring a BMD capability

⁴³ Editorial—North Korean Threat Must Be Contained. *The Daily Yomiuri* in English, February 5, 1999: 6.

⁴⁴ Editorial—N. Korean Missile Vow Questionable. *Yomiuri Shimbun*, July 21, 2000.

⁴⁵ Editorial—Beware and Prepare For Threat on Korean Peninsula. *Sankei Shimbun*, February 5, 1999.

⁴⁶ Theater Missile Defense Adds to Regional Tension. *Asahi News Service* in English, May 21, 1999.

⁴⁷ Japan's Response to U.S.' NMD Concept Remains Unclear, *Asahi Shimbun*, May 9, 2001, p. 2; *ibid.*, Editorial—Japan Should Clearly Reject U.S. Missile Defense Proposal, *Asahi Shimbun*, May 10, 2001.

⁴⁸ Defense Agency Eager to Fathom America's True Intention Behind its Missile Defense, *Yomiuri Shimbun*, May 16, 2001, p. 15.

but concluded that on balance “missile defense will help promote nuclear disarmament.” The *Nihon Keizai Shimbun* noted the Bush Administration’s announcement that it would unilaterally make reductions in the U.S. nuclear arsenal, and also argued that missile defense, if effective, would “potentially make the possession of nuclear weapons meaningless.”⁴⁹

Acute concern about a growing missile threat to Japan has been increasingly evident among the Japanese public. A January 2000 poll by the Office of Prime Minister indicated high levels of concern about the situation on the Korean Peninsula (56.7%) and arms control regarding weapons of mass destruction and missiles (35.2%).⁵⁰ Nevertheless, there seems to be a persistent lack of consensus on the desirability of cooperation with the U.S. on BMD development. A poll by the United States Information Agency, published in November 1998, and taken shortly after North Korea’s Taepo Dong launch, showed that only 43% of the respondents supported cooperating with the United States in the development of a ballistic missile defense system, while 32% opposed to it.⁵¹ Subsequently, when a similar question was posed in May 2000, 41% of the respondents favored cooperating with the U.S. on BMD development, 46% opposed, and 14% answered “I don’t know.”⁵² Among other objections, many Japanese citizens have indicated apprehension about both the substantive and symbolic implications of the deployment of a BMD in terms of the role and status of Japan’s Self-Defense Forces.

Key National Interest Considerations of Japanese Policymakers

The extent of future cooperation with the United States on BMD is one of the most important foreign and security policy decisions facing Japanese policymakers. In addition to being important to the future of the U.S.-Japan alliance, cooperative research and the deployment of a BMD system would have major ramifications for Japanese security and its relations with China and other Asian neighbors, as well as with Russia.

⁴⁹ Missile Defense Reduces Nuclear Arsenals, *Nihon Keizai Shimbun*, May 21, 2001, p. 2.

⁵⁰ The two issues were the top concerns when a similar question was posed in 1997. But the number of those concerned about the Korean Peninsula increased by 10%, and those concerned about arms control by about 7%. The survey presented ten issues and asked respondents to choose three of them. (*Opinion Polls on Issues concerning the Self-Defense Force and National Defense*, in Japanese. Office of Prime Minister, February 1997 and January 2000.)

⁵¹ USIA, Office of Research and Media Reaction, Briefing Paper: Japanese Public Opinion on Economic Issues, North Korea. November 16, 1998, p. 2. (Cited in CRS Report RL30256, *Japan’s Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation*, by Richard P. Cronin.)

⁵² Japanese Public Sees U.S. Ties in Good Shape. *Opinion Brief*. Office of Research, U.S. Department of State. June 7, 2000.

U.S.-Japan Alliance Considerations

The Japanese Government appears to place alliance considerations high on the list of reasons for taking a positive stance towards missile defense cooperation with the United States. Some U.S. analysts portray missile defense cooperation as “a solid alliance-builder” with Japan,” albeit only if “properly carried out.”⁵³ Whether Japanese officials fully share this view is uncertain, but clearly the goal of strengthening the alliance has been a significant factor in their decision to press ahead with the program despite public criticisms that have been leveled at the Bush Administration’s revised missile defense policy. Joint development also has been seen as an opportunity for Japan to favorably respond to some congressional demands for greater responsibility in burden-sharing by Tokyo.

Conflicting Concerns About China

Although normally unspoken in public, the potential ballistic missile threat from China appears to be both a fundamental reason for Japan’s desire to acquire a BMD capability and the main source of its cautious approach to the participation in the U.S. plan. Some believe that possession of a BMD capability could devalue the role of theater ballistic missiles in regional conflict and counter or even deter the further development and modernization of Chinese missiles.

Others in Japan have registered concerns that the BMD program may destabilize the Mainland’s relations with Taiwan, as well as Japan, and trigger a regional arms race. China has been adamantly opposed to the inclusion of Taiwan in the area covered by U.S.-Japan Defense Cooperation Guidelines and the BMD. Should the Bush Administration make progress in restraining North Korea’s ballistic missile program, the Chinese missile threat will stand out as the most obvious motive for Japanese cooperation on the development of a BMD system – a fact that could induce new strains in Sino-Japanese relations. Thus far, however, although North Korea has agreed to suspend tests of its long-range Taepo Dong missiles, Pyongyang has failed to respond to Bush Administration statements of intent to hold unconditional discussions on missile and other issues. Also, since the September 11 attacks, China has tended to downplay its opposition to the U.S. missile defense program in the interests of putting U.S.-China relations on a more cooperative footing. The relaxation of tensions in U.S.-China relations has had the effect of also taking some of the edge off Sino-Japanese relations.

Other Foreign Policy Considerations

Strains in Japan’s relations with China are just part of a wider problem of reassuring Asian neighbors about Japan’s intentions. Regional reaction was muted towards Japan’s decision to send ships to the Indian Ocean to provide logistical support to U.S. forces participating in the anti-terrorist campaign in Afghanistan, but Japan has not succeeded in putting to rest regional concern that it aspires to play a

⁵³ Paul Mann, Theater Defense Endorsed for Asia-Pacific Region. *Aviation Week and Space Technology*, July 24, 2000: 50-52.

larger military role. Much of this concern stems from Japan's failure to overcome lingering resentment of its colonial role and aggression in World War II.

Continued Friction in Japan-South Korea Relations. Japan seemed to make a breakthrough in its relations with South Korea in October 1998, during an October 1998 visit to Tokyo by South Korean President Kim Dae Jung, when the late Prime Minister Keizo Obuchi's gave Japan's first written apology for its past aggression. Since that time, however, a number of incidents have kept Japan-South Korean relations on edge, including a visit to the Yasukuni War Memorial by Prime Minister Junichiro Koizumi in August 2002.

As a beneficiary of U.S. presence in the region, South Korea may eventually condone the introduction of a U.S.-Japan BMD capability that would shield U.S. bases in Japan against a North Korean missile threat. To date, however, South Korean leaders and media commentators have continued to express suspicion of Japan's interest in missile defense.

South Korea's own preferred response to North Korea's ballistic missile capability has been to develop missiles capable of attacking North Korean missile sites, rather than supporting the deployment of a BMD system. Since 1979, this strategy has been constrained by a commitment to the United States that South Korea would not deploy missiles of more than 180 kilometers (112 miles) range – enough to attack North Korean targets near the Demilitarized Zone (DMZ) but not enough to reach Pyongyang. In mid-2000, however, reportedly after five years of negotiations, the Clinton Administration agreed to allow South Korea to develop missiles with ranges up to 300 kilometers (186 miles) and corresponding payloads of up to 500 kilograms. The U.S. State Department formally announced the policy change in mid-January 2001.⁵⁴ Reportedly the United States also agreed that South Korea could conduct research on missiles with up to 500 kilometers range.⁵⁵

Thus far, South Korea appears not to have acted on the agreement because of President Kim Dae Jung's "Sunshine" policy that seeks North-South engagement⁵⁶ Nonetheless, because of continuing criticism of Japan by both North and South Korea, and the aspirations of Koreans for reunification, the apparent desire of Seoul to develop an offensive ballistic missile capability is another source of Japanese uneasiness.

Concerns about Perceptions of Japan's Southeast Asian Neighbors. Japan is also aware of negative ramifications that deployment of a BMD system could have on its diplomatic profile in Asia, especially among its Association of Southeast Asian Nations (ASEAN) neighbors. As past victims of

⁵⁴ U.S. Department of State, New Republic of Korea Missile guidelines; Statement by Richard Boucher, Spokesman, Jan. 18, 2001.

⁵⁵ The 300 kilometer/500 kilogram range/payload combination is the upper limit of missile transfer limits under the multinational Missile Technology Control Regime (MTCR).

⁵⁶ Doug Struck, As Relations Thaw, Seoul Suspends Arms Plan. *Washington Post*, June 25, 2000: A20; ROK, U.S. Agree on ROK Extension of Missile Range. *Seoul Yonhap* in English, Oct. 17, 2000.

Japanese World War II aggression, many of the countries of Southeast Asia still harbor fears of Japanese remilitarization. Hence, many if not most countries in Southeast Asia view the U.S.-Japan alliance in a favorable light, for it signifies a continuing U.S. engagement in regional security and deters Japan from re-emerging as an independent military power. In this respect, joint deployment of a BMD system would tend to be less worrisome to most Southeast Asian countries than would Japan's acquisition of an independent capability, but some Japanese policymakers are concerned that even this would be unduly provocative, and would partly negate Tokyo's effort to improve its relations in the context of a de facto rivalry with China for influence in an area Japan once viewed as its "backyard."

Legal and Constitutional Constraints

Foreign Japan-watchers and the Japanese themselves have given great attention to the constitutional issue, especially the question of whether the constitution can be reinterpreted to allow for collective defense arrangements, or whether the seriousness of the question requires a constitutional revision. A number of study groups within the Diet have considered the issue, but without coming to any clear conclusions. Generally, however, a large majority of the Japanese officials and the public have taken the position that reinterpreting the constitution to allow for collective defense is a step too far. Prime Minister Koizumi himself has argued for a more flexible interpretation, but this appears to be a minority view even within his own party. Many among the Japanese public are less concerned about collective defense, per se, than with the concomitant expansion of the roles of the Japanese military. From this perspective, Article 9 is viewed as a kind of Talisman protecting Japan from the revival of militarism.

Possible Bellwether for the Future? Japan's Response to the U.S. War on Terrorism. One aspect of Japan's response to the request of the United States that Japan "show the flag" with logistical support of U.S. forces deployed in the Indian Ocean after the September 11 terrorist attacks, could be a bellwether of how much effect the constitutional issue has on future Japanese BMD cooperation. After first indicating that the government would send an Aegis destroyer as part of a small naval contingent that it sent to the Indian Ocean in October 2001, Prime Minister Koizumi was forced to give way to vocal objections from within the LDP, the New Komeito, a coalition partner, and the opposition Democratic Party that sending an Aegis ship would be unconstitutional. Critics argued that because the Aegis ship would be establishing a data link with U.S. Aegis ships, Japan would be a party to any military action by those ships. Perhaps the most significant aspect of this opposition was that within the LDP objections to sending an Aegis destroyer came from a number of leaders generally viewed as politically conservative, if not nationalistic.⁵⁷

The maintenance of this line of argument against deploying Aegis ships could be fatal to a number of possible BMD cooperation scenarios, but it remains to be seen if the position will stand. Some analysts and commentators have suggested that when the current six-ship naval contingent is rotated home, an Aegis destroyer will be sent

⁵⁷ Koizumi Has to Drop Aegis Plan, Raising Questions about His Political Will. *The Daily Japan Digest*, Nov. 19, 2001: 1,2.

with the relief force. From this perspective, Koizumi's retreat was just a tactical one, temporarily saving the face of his critics, but without being deflected from his ultimate purposes. Alternatively, Koizumi's forced retreat on this issue may accurately reflect what is politically possible for the foreseeable future.

Ban on the Use of Outer Space for Military Purposes. Some in Japan oppose participation in the U.S. BMD program on grounds that joint research and development goes against a 1969 parliamentary resolution on the peaceful use of space that prohibits the SDF's direct use of space for killing, injuring or destruction. For now, this issue seems to be resolved in favor of BMD. The Japanese government declared in December 1999 that the Japanese involvement in the NTW program is in accordance with the upper house resolution on the peaceful use of outer space.⁵⁸

Since North Korea's August 1998 Taepo Dong missile launch, public opinion generally has been supportive of the deployment of an independent national reconnaissance system,⁵⁹ but the employment of space-based sensors raises questions about the militarization of space, which Japan has pledged to avoid.

Ban on Arms Exports. Japanese critics also argue that participation in the U.S. BMD program violates a long-standing ban on arms exports. The Japanese government also has asserted that military technology transfer deriving from the joint research would stay within the preexisting lawful framework of military technology transfer to the United States.⁶⁰ However, exports of military hardware and components are viewed by some as going beyond current policy. Consequently, some LDP members with defense industry ties reportedly have called for a change in Japan's current ban on arms exports to make sure that Japanese contractors can participate in the production of BMD components for export to the United States.⁶¹

Cost Concerns

Acquisition of a BMD capability would present a major financial challenge to today's Japan, which is struggling with a faltering economy and proportionately the largest public fiscal debt in the industrialized world. Although climbing for most of the 1990s, Japan's military budgets began leveling off around 1998. The share of the research and development budget has been shrinking in relation to the procurement

⁵⁸ *Handbook for Defense 2000*, p. 147.

⁵⁹ A November 1998 poll by the U.S. Information Service found that 54% of respondents favored the development of an independent satellite reconnaissance capability but only 43% favored cooperation with the United States to develop a ballistic missile defense system. USIA, Office of Research and Media Reaction, Briefing Paper: Japanese Public Opinion on Economic Issues, North Korea. Nov. 16, 1998, p. 2. For additional details, see CRS Report RL30256, *Japan's Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation*, by Richard P. Cronin.

⁶⁰ *Handbook for Defense 2000*, p. 147.

⁶¹ LDP Panel Proposes Reviewing Japan's Weapons-Export Principles. *Nihon Keizai Shimbun*, March 24, 2001, p. 2.

budget.⁶² BMD procurement would have to compete for funds with the planned procurement of such systems as F-2 fighter aircraft, air-refueling tankers, two new AEGIS destroyers (which could serve as platforms for an eventual BMD system), a replacement for Japan's fleet of PC-3 maritime reconnaissance aircraft, and information gathering satellites.

The costs of Japan's participation in research and development related to four parts of the Standard-3 interceptor missile are relatively small, but acquisition of a BMD capability would unquestionably present the Koizumi government and the JDA and Self-Defense Forces (SDF) with major defense budget decisions. In both FY2001 and FY2002, the Japanese government allowed less than a 1% increase in defense spending. Japan's prolonged economic slump has seriously limited new arms acquisitions. Some analysts estimate that it could cost Japan as much as \$50 billion over a number of years to develop and deploy a robust ballistic missile defense.⁶³ Considering that Japan's FY2001 budget for procurement for military hardware only totaled ¥ 767 billion (about \$7.1 billion at then prevailing exchange rates), and that the entire budget was less than \$40 billion, the JDA likely will face extremely difficult choices in deciding between BMD and other weapons system modernization programs.

Japanese officials say that the current Five-Year Defense Outline that began with FY2001 has sufficient funding for currently planned procurement programs only. Because the five-year plan traditionally does not allow for major revisions, Japanese officials indicate that a procurement decision could not take place until about FY2006.⁶⁴

A decision by Japan to acquire a BMD capability would have costs and significance far in excess of the U.S. decision to push forward with missile defense, even though the actual monetary cost to Japan would be far less, both in comparative and absolute terms. Practically speaking, in view of other acute spending priorities and budgetary constraints associated with its mountain of bad loans, unfunded liabilities of hundreds of quasi-governmental corporations and pension funds, rising and unprecedented levels of unemployment, and falling tax revenues, Japan cannot opt for acquisition of a BMD capability without jettisoning the informal 1% of GDP limitation on defense spending. To do so, however, would likely generate significant criticism from both Japan's neighbors and a large section of the Japanese public.

A decision *not* to deploy a BMD system would likely have its own set of costs for U.S.-Japan security relations. Because a BMD system deployed in Japan could help protect U.S. troops stationed in Japan, as well as Japanese lives and assets, many in the Congress and the Executive Branch, and among the U.S. public, tend to see Japan's participation in BMD as a fully warranted exercise in alliance burden-sharing. Currently, Japan's burden-sharing in the form of host-nation support of U.S. forces amounts to \$4 to \$5 billion annually, taking into account direct support, foregone

⁶² *Handbook for Defense 2000*, p. 292.

⁶³ Paul Mann, Economic Woes Shadow Japan's Missile Defense. *Aviation Week and Space Technology*, March 11, 2002: 55.

⁶⁴ Discussion with JDA officials in Washington, DC, March 6, 2002.

revenues, and in-kind contributions.⁶⁵ However, the host-nation support (HNS) – also is in decline. During a presidential visit to Japan in July 2000, President Clinton and Prime Minister Mori agreed that Japan would reduce by \$30 million its annual host-nation support of U.S. troops stationed in Japan.⁶⁶

This cut is largely symbolic, but the simple fact that it was deemed politically necessary by the Japanese government underscores the difficulties that may be encountered in seeking to finance the cost of acquiring and deploying a BMD capability. Likewise, U.S. efforts to hold the reduction to the absolute minimum indicate the limits of American sympathy for the Japanese government's political situation.

Implications for U.S. Policy

As the U.S. BMD program progresses, a number of uncertainties concerning Japan's future participation are likely to emerge as executive branch and congressional concerns. Assuming development proceeds as U.S. planners hope, Japan may have to address the issue within the current term of the Bush Administration. Japan's decisions are not likely to have a significant impact on the U.S. program, but could affect the size and effectiveness of a U.S. BMD capability in Asia, as well as on U.S.-Japan alliance cooperation more generally.

Japanese decisions either for or against the acquisition of a BMD capability raise separate sets of subsidiary issues. The following discussion analyzes some implications of alternate outcomes.

1) Burden-Sharing Issues. Because the Japanese commitment on the U.S. BMD project to date is only for technology research on four specific components for Sea-Based Midcourse Defense, the U.S. Department of Defense anticipates a significant, but not crucial, Japanese technological contribution. If Japanese cooperation ends at the joint technology research level, however, Japan still will be a major beneficiary if a BMD capability – assuming, as is likely, that such a capability is deployed with the U.S. 7th fleet, home-ported in Japan. If Japan does not develop or deploy the system with the United States, what kinds of compensation, if any, would the United States expect of Japan?

At the moment, this is still a hypothetical question. A number of signs indicate that Japan wants to acquire a BMD capability. These indicators include not only the funds that the Japanese government is committing to cooperative R&D, but also the fact that two new Aegis destroyers and funds for the most current radar and communications suite have been included in the current five year defense plan. If, however, Japan decided not to acquire a BMD capability, the decision would play into

⁶⁵ These figures are based on the 1996-2001 five-year bilateral Special Measures Agreement. (*Report on Allied Contributions to the Common Defense; A Report to the U.S. Congress by the Secretary of Defense*, March 1999, p. II-7.)

⁶⁶ Kiyotaka Shibasaki and Justin McCurry, U.S. Reaffirms Military Base Reduction Plan. *The Daily Yomiuri* in English, July 24, 2000, p. 1.

the broader issue of defense burden-sharing. At a minimum, a decision not to acquire a BMD capability could revive congressional concerns about whether Japan is shouldering enough of the burden of regional stability and its own defense.

2) Utility of a Jointly Deployed U.S.-Japan BMD Capability to U.S. Military Operations in the Event of a Regional Conflict. Although the Japanese government has rarely issued objections to the U.S. military's joint operations with Japan in the past, prior to the recent response to the U.S.-led anti-terrorist campaign in Afghanistan, such activities have been carefully restricted to training exercises having limited objectives such as sea-lane defense, air defense, or peacekeeping support. Current rules of engagement governing the operations of the Japanese Navy rule out activities that could be construed as combat support of U.S. forces for any missions not involving the defense of Japanese territory.

If a missile defense capability were deployed on Japan's Aegis destroyers and a conflict erupted on the Korean Peninsula or between China and Taiwan, the United States might put pressure on Japan to deploy some missile defense capability outside its own territory. Under prevailing Japanese rules of engagement and constitutional interpretations, a favorable Japanese response would appear all but impossible.

Less clear is whether in a crisis situation the exchange of real-time data between Japanese Aegis ships equipped with a BMD capability could pass political or constitutional muster. For instance, could Japanese ships equipped with the Sea-Based Midcourse System back up more forward-deployed U.S. units with supplementary target information? Presumably they could, so long as Japanese territory or U.S. bases in Japan were possible targets of a missile attack. Under current Japanese constitutional constraints, however, the U.S. military would likely find it prudent not to count on Japanese participation in anything short of a clear and present threat to Japanese territory. The example of Prime Minister Koizumi reversing his decision to send an Aegis-equipped destroyer to the Indian Ocean is a case in point.

In summary, an integrated binational BMD capability could be highly useful in situations that also threatened Japanese territory, but might be of little utility to U.S. forces in situations outside Japanese territorial waters or not involving an attack on Japanese territory. In these cases, U.S. forces presumably would have to operate independently. Since BMD capable ships are being designed to be self-supporting, if necessary, these limitations are not critical, but they raise questions about the ultimate value to U.S. security of a Japanese BMD capability.

Japanese perspectives on the limits of the collective security ban are in flux, and Prime Minister Koizumi has speculated in public that Japan might have to have a more open mind about a situation involving an attack on U.S. military forces in the region.⁶⁷ While campaigning for the LDP presidency, Koizumi said that he would give high priority to constitutional revision, but since taking office he has given first priority to his call for the direct election of the Prime Minister, and appears to have downgraded the urgency of revising Article 9, while calling for continued discussion of the issue.

⁶⁷ Ayako Doi, Japan's New Leader: Foreign Policy Liability in the Making? Forum—*The Daily Japan Digest* (Arlington, VA, news service), April 27, 2001.

The Prime Minister's caution may reflect repeated polls consistently showing that 70% or more of the respondents oppose revising Article 9.⁶⁸

3) Impact of Japan's active involvement in regional deployment of a BMD system on U.S. operational flexibility. Given the historical mistrust of Japan's intentions and programs among its Asian neighbors, a highly visible involvement by Japan in missile defense, were it otherwise possible, could have negative implications for U.S. security interests in Asia. China, for instance, might see an integrated U.S.-Japan BMD capability as more threatening to its interests than a U.S. system alone, because of the implication that Japan is joining a *de facto* collective security arrangement that is aimed at China, especially in a confrontation involving Taiwan. China and other neighboring countries may be less than convinced that Article 9 will continue to inhibit Japan's participation in collective security with the United States, especially because the restriction has become the target of nationalist opposition in Japan. Thus for China, North and South Korea, and some Southeast Asian countries, an integrated U.S.-Japan BMD system could be viewed as symbolizing the remilitarization of Japan under the cloak of alliance cooperation with the United States. To the extent that joint BMD deployment generated fears of a rearmed Japan, it could detract from the acceptability of a U.S. BMD capability.

On the other side of the equation, Japan's neighbors are likely to regard an independent Japanese BMD with even greater concern. For some of Japan's neighbors, such as South Korea, a Japanese capability firmly linked to that of the United States would seem more desirable. China, on the other hand, opposes both deployment options.

4) Command, control, communication, and intelligence (C³I) issues. These could be critical issues in the case of an integrated U.S.-Japanese BMD capability. To what degree would the United States be dependent on the decision-making capability of the Japanese Cabinet, which has yet to develop effective crisis management capabilities? Would, some ask, Japan allow a U.S. commander to control the "button" that would activate a joint system? This would be most unlikely, according to Japanese sources?⁶⁹

A similar dilemma could arise if U.S. and Japanese missiles were integrated into a joint sensor and command and control system. In scenarios that do not involve the defense of Japanese territory, such as the deployment of U.S. BMD systems to protect Taiwan, the question arises as to whether Japan could or would allow the involvement of jointly operated satellite and command and control facilities. Several defense commentators and private analysts have suggested that this problem could be circumvented by the creation of a joint command and control system that would also allow either party to act independently, if necessary.⁷⁰

⁶⁸ Editorial—Amending the Constitution Is Not a Realistic Proposition. *Asahi Shimbun*, May 4, 2001 (Asahi News, [<http://www.asahi.com>]).

⁶⁹ Chester Dawson, Blueprint for Controversy. *Far Eastern Economic Review*, July 13, 2000: 19.

⁷⁰ Chester Dawson, Blueprint for Controversy. *Far Eastern Economic Review*, July 13, 2000: 18-20; Theater Missile Defenses in the Asia-Pacific Region: A Henry L. Stimson Center

Japanese officials and defense analysts are well aware of the inadequacy of their current crisis management and C³ capabilities. Prime Minister Koizumi reportedly hopes to succeed where his recent predecessors have failed in getting the Diet to approve legislation giving him the emergency powers necessary for crisis decisionmaking. As of early 2002, however, the prospects for the introduction of such legislation remain doubtful.

Conclusions

The United States and Japan have shared concerns about the proliferation of ballistic missiles in Asia and, therefore, a shared interest in the theater missile defense. The technological and financial contributions that Japan may bring into cooperative research on the Sea-Based Midcourse System element of the U.S. BMD program are potentially significant, although not critical. Japan continues to keep its options open regarding the acquisition and deployment of a BMD capability. Subject to flexible enough rules of engagement and crisis management capabilities, Japan's possession of an operationally compatible BMD capability would contribute importantly to the ability of U.S. military forces to deploy an effective missile defense system in the Asian region, as seems to be envisioned by BMD supporters in Congress and the Bush Administration. Also, the very feasibility of deploying a BMD system in Asia depends on the availability of bases in Japan, most notably the U.S. naval base at Yokosuka, on Tokyo Bay, which is the home port for the U.S. Seventh Fleet.

Considering the wide range of issues that the Japanese government must resolve before proceeding with a decision to acquire a BMD capability, the future of an interoperable U.S.-Japan capability cannot be taken for granted, let alone an integrated binational system. On the positive side, Japanese defense officials seem clearly to be leaning in the direction of at least a national BMD capability that would be interoperable with that of the United States. Even if Japan does opt to procure and deploy an operationally compatible BMD system, however, it remains highly questionable whether Japan will agree to an integrated command and control arrangement. At present, a substantial majority of the Japanese public appears opposed to constitutional changes that would allow collective self-defense, either for missile defense or other purposes.

Senior Bush Administration officials, most notably Deputy Secretary of Defense Armitage, have expressed a strong desire for Japan to address the constitutional constraints. Were Japan to amend or reinterpret Article 9, however, Japanese policy would still be based on its national interest perceptions. Thus any decision by Japan to opt for joint deployment of a BMD capability would itself raise additional foreign policy issues for Japan and operational challenges for U.S. forces.

Several of these foreign policy issues are trilateral rather than bilateral. For instance, Japanese policy could turn on the evolution of U.S. relations with the PRC and Taiwan, and whether or not the United States succeeds in negotiations to

eliminate the North Korean missile threat. North Korea's Taepo Dong launch of August 1998 provided an important public relations asset to BMD supporters in Japan. On the other hand, a number of indicators suggest that the main concern among defense analysts and planners in Japan, and those in the political world who think about such matters, is fear that China may one day threaten Japan with ballistic missiles. From this perspective, a missile defense capability is one means to counter China's rising military power.

It is difficult to assess the impact of future political change on Japanese decisionmaking concerning BMD cooperation, especially regarding any matters touching on the constitution. In general, political change since the split in the LDP in July 1993 seems not to have had much perceptible impact on the trend towards a more assertive defense posture and increased U.S.-Japan security cooperation. Because of the steady decline of the Social Democratic Party of Japan (SDPJ), the two most likely alternatives to the status quo are a revitalized Democratic Party of Japan (DPJ), which remains divided between former members of the SDPJ and more conservative defectors from the LDP, and the more nationalistic wing of the LDP, as represented by Shintaro Ishihara, the popular, iconoclastic Governor of the Tokyo Metropolitan Prefecture. For different reasons, neither of these alternatives to the political status quo has been enthusiastic about missile defense cooperation with the United States. What stance they would take were they to attain power is difficult to forecast with any confidence.

Another imponderable at this time is the longer term prospect for retaining U.S. bases in Japan. At present, the principal targets of public opposition to U.S. bases in Japan are facilities in Okinawa whose training and other operations have a large impact on the environment and quality of life. These mainly involve the U.S. Marines stationed there. In general, U.S. Navy and Air Force bases receive less criticism. Nonetheless, some of the same groups that support a defense buildup and closer alliance relations are ambivalent about hosting a major U.S. military presence more than five decades after the end of the U.S. post-World War II occupation. Already, Okinawans have succeeded in getting the Japanese government to "relay" their desire to put a fifteen year limit on use by the U.S. Marines of a proposed replacement for the current Futenma Marine Air Station. For now, issues concerning U.S. access to bases in Japan are limited to Okinawa, and to forces that do not relate to BMD. Should this situation change, it would become more difficult for the United States to maintain an "Asian" BMD capability.⁷¹

Japan's involvement in joint development of the SMD element of the U.S. missile defense program represents considerable progress by Japan towards greater alliance burden sharing, but its full implications remain to be seen. Neither Japan's participation in joint research and development, nor a decision by Japan for or against acquisition or deployment of a BMD capability, are likely to have critical impact on the development of a U.S. missile defense capability or on the deployment of an American sea-based capability in Asia. Nonetheless, Japan's participation in the

⁷¹ For more background on this issue see CRS Report RL30256, *Japan's Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation*, by Richard P. Cronin, and CRS Issue Brief IB97004, *Japan-U.S. Relations: Issues for the 107th Congress* (section on Security Issues, by Larry Niksch).

research and development phase is viewed by U.S. officials as possibly contributing important technology, and a decision by Tokyo to acquire a BMD capability could have considerable foreign policy significance for the United States and important military implications. Given the prevailing uncertainties about Japanese policy and the implications of its future decisions, Congress may decide to consider carefully the assumptions of the Administration and the terms of any further steps in BMD cooperation with Japan. Part of such consideration could be obtaining additional information on the threat perceptions of the Japanese Defense Agency (JDA) and Self-Defense Forces (SDF), the possible implications of a change in the perceived threat from North Korea's missiles, the attitude of Japanese political leaders and Ministry of Foreign Affairs policymakers towards China, Japan's fiscal situation and defense budget trends, public and political attitudes towards U.S.-Japan security cooperation and U.S. bases in Japan, and the prospects for constitutional revision and the acquisition of emergency powers by the Japanese national command authorities.

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U.S.-Japan Economic Ties: Status and Outlook

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U.S.-Japan Economic Ties: Status and Outlook

SUMMARY

The U.S.-Japan relationship is a long-term one involving mutually accepted principles — regional economic and political stability; market-driven economies; and democratic systems of government. The relationship is also complex, encompassing many factors.

The United States and Japan are closely tied economically. Japan ranks third to Canada and Mexico as the largest single-country market for U.S. exports. Japan is the leading market for U.S. agricultural exports. Japan is also the second largest supplier of U.S. imports. The United States ranks as Japan's number one export market and import supplier. The two economies are also tied by financial capital flows.

Despite, or perhaps because of, the interdependence, U.S.-Japan ties have been burdened by friction for many years. In the late 1960s and the 1970s, these tensions derived from the growth in competition from Japanese imports, first in labor-intensive goods, such as wearing apparel, then later in more capital-intensive goods, such as steel and cars. Since the 1980s, as U.S. competitiveness in these industries improved and/or as Japan's competitiveness lessened, the emphasis of U.S. concerns shifted to market access in Japan for U.S.-made products, such as agricultural products, semiconductors, cars and autoparts, and insurance.

For many on the U.S. side, especially those adversely affected, the trading relationship with Japan was seen as an increas-

ingly unfair one to the advantage of Japan, and the U.S. deficit was considered to be the result of unfair Japanese trade practices. Japan, on the other hand, argued that its growing advantage in trade was the result of the increasing competitiveness of Japanese-made products and the inability of American products to compete in Japanese markets.

In the few years, U.S.-Japan bilateral economic ties had become less tense, although issues over imports of steel from Japan, high Japanese tariffs on rice, and market access in Japan for insurance, glass, and photo film, have caused friction to increase recently. Moreover, differences have arisen over how Japan should deal with its current economic problems that have led to anemic or even negative economic growth since 1991.

The United States and Japan work together in multilateral fora, such as the World Trade Organization (WTO) and the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling regional organization.

There is a long history of congressional interest in Japan because of Japan's role as a world economic power and an important U.S. ally. Members are concerned about how trade and investment with Japan affects the United States as a whole and their constituencies in particular. These U.S.-Japan ties are frequently the subject of congressional committee oversight hearings.

MOST RECENT DEVELOPMENTS

On May 17, Japan notified the World Trade Organization (WTO) of its intent to retaliate against U.S. safeguard measures on steel imports by imposing tariffs on imports of U.S. steel worth \$4.88 million on June 18 and is prepared to take further retaliatory action if the WTO rules against the U.S. safeguard action. On March 20, 2002, the government of Japan filed a request with the World Trade Organization for consultations with the United States over the Bush Administration's March 5 decision to impose additional tariffs on imported selected steel products. The Administration's decision was the result of a section 201 investigation and the United States International Trade Commission's determination that steel imports seriously injured or threatened to seriously injure U.S. steel producers. In announcing his government's request for consultations, Prime Minister Koizumi stated that he attributes the problems of the U.S. steel industry to the inability to remain internationally competitive and not to imports.

In the meantime, on March 8, the Japanese government reported that the Japanese economy shrank for a third straight quarter. That result means that Japan's latest recession continues. In a April 8 speech in Washington, Council of Economic Advisers Chairman Glenn Hubbard stated that Japan could not depend alone on exports to the United States to reinvigorate its economy.

Overview of Japan-U.S. Economic Ties

The U.S.-Japan relationship is a long-term one involving mutually accepted objectives and principles — regional economic and political stability; market-driven economies; and democratic systems of government. The relationship is also complex encompassing many factors. During the Cold War, national security and defense matters largely defined the relationship. But as the threat of the Soviet Union receded and eventually disappeared and as U.S. and Japanese relations with China have changed, economic matters have become more dominant in U.S.-Japan ties.

The United States and Japan are closely linked economically. Japan is the third largest single-country U.S. export market and is actually the leading market for U.S. agricultural exports, such as corn and wheat; for U.S. crude materials, such as wood; and for U.S.-produced aircraft. Japan is also the second largest supplier of U.S. imports, including cars, consumer electronics, telecommunications equipment, and computers. The United States Japan's largest export market and import supplier.

The two economies are also tied by financial capital flows. Japan is one of the largest sources of foreign portfolio capital (bank deposits, stocks, bonds, and other securities) and of foreign direct investment (plants and real estate) in the United States. Likewise, the United States is the largest source of foreign portfolio and direct investments in Japan.

Despite or perhaps because of the interdependence, U.S.-Japan ties had been burdened by friction for many years. In the late 1960s and the 1970s, these tensions derived from the growth in competition from Japanese imports, first in labor-intensive goods, such as wearing apparel, then later in more capital-intensive goods, such as steel and cars. Since the 1980s,

as U.S. competitiveness in these industries improved and/or as Japan's competitiveness lessened, the emphasis of U.S. concerns shifted to market access in Japan for U.S.-made products, such as agricultural products, semiconductors, cars and autoparts, and insurance.

For many on the U.S. side, especially those adversely affected, the trading relationship with Japan has been seen as increasingly unfair to the advantage of Japan symbolized by the imbalance in goods trade. Japan, on the other hand, has argued that its growing advantage in trade has been the result of the increasing competitiveness of Japanese-made products and the inability of American products to compete in Japanese markets.

U.S.-Japan trade friction subsided in the second half of the 1990s but differences over imports of steel from Japan, high Japanese tariffs on rice, and market access in Japan for insurance, and glass have caused friction to increase recently. But it has been Japan's poor economic performance since 1991 that has taken center stage in bilateral relations. The United States and Japan also work together in multilateral fora, such as the World Trade Organization (WTO) and the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling regional organization.

There is a long history of congressional interest in Japan because of its role as a world economic power. Members are concerned about how trade and investment with Japan affect the United States as a whole and their constituencies in particular. They are also concerned about how tensions in economic relations affect the health of the U.S.-Japan alliance. U.S.-Japan economic ties have been the impetus for major trade legislation and are frequently the subject of congressional committee oversight hearings.

Trends in U.S.-Japan Economic Ties

For many years, the U.S.-Japan economic relationship has been clouded by persistent, large imbalances. As Table 1 below indicates, the U.S. merchandise (exports and imports of goods) trade deficit with Japan was a record \$81.3 billion in 2000, but in 2001 the U.S. deficit declined to \$69.0 billion, primarily because the U.S. economic slowdown dampened demand for Japanese imports.

A more inclusive measure of trade balances is the balance on the current account, which includes the balances in merchandise trade, investment income, trade in services, and unilateral transfers. According to Department of Commerce data, the U.S. current account deficit with Japan in 1999 was \$87.8 billion and was \$97.5 billion in 2000. Preliminary data for the first 9 months of 2001 indicate that the U.S. current account deficit is roughly 15% lower than in 2000.

Economists generally attribute the persistent imbalances in U.S.-Japan trade to domestic savings-investment imbalances in the two countries. Japan has a relatively high savings rate that more than covers domestic (both private and government) investment requirements while the United States has a lower savings rate that does not meet U.S. domestic private and public investments needs. These imbalances are reflected in each country's current account balances with the world and with each other where Japan has consistently run surpluses while the United States has run deficits.

Other factors, such as sudden changes in foreign exchange rates, can cause short-term shifts in the trade balances. The Japanese yen has depreciated in the last year in terms of the dollar, making U.S. exports to Japan more expensive and imports from Japan cheaper causing U.S. exporters and import-sensitive producers some competitiveness concerns. On January 2, 2001, the yen/dollar exchange rate was ¥114.75=\$1.00. On February 26, 2002, the rate was ¥133.88 = \$1.00, a 14.5% yen depreciation. In a January 23, 2002 speech in Tokyo, Secretary of the Treasury O'Neill warned Japan that the United States did not support a policy of a weak yen as a way for Japan to stimulate its economy.

Table 1. U.S. Merchandise Trade with Japan, 1992-2001
(\$ billions)

Year	Exports	Imports	Balances
1992	47.8	97.4	-49.6
1993	47.9	107.2	-59.4
1994	53.5	119.2	-65.7
1995	64.3	123.6	-59.3
1996	67.5	115.2	-47.6
1997	65.5	121.7	-56.1
1998	57.9	122.0	-64.1
1999	57.5	131.4	-73.9
2000	64.9	146.5	-81.6
2001	57.6	126.6	-69.0

Source: U.S. Department of Commerce, Bureau of the Census. Exports are total exports valued on a f.a.s. basis. Imports are general imports valued on a customs basis.

Japan's Economic Problems

Japan's economy has been anemic at best, and at times in decline, for most of the last 10 years. Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One has been the effects since the beginning of the 1990s of the burst in the economic "bubble," which saw the value of land and other assets collapse. The burst in the bubble led to serious problems for Japan's banking sector as Japanese banks held loans made in the 1980s that had been backed up by inflated real estate. These problems have dampened domestic demand. Furthermore, some analysts point to Japanese fiscal policies that have emphasized budgetary restraint and increased taxes that have also kept a lid on demand. To try to boost demand, the Japanese government has implemented a series of fiscal stimulus packages since 1992.

In the longer term, Japanese and U.S. economists point to rigid government regulations that stifle productivity in a number of sectors. The United States and others have been pressuring Japan to undertake deregulation. (See section below on deregulation.)

Recent data indicate that Japan's economic prospects are not bright.. In 2000, Japanese real gross domestic product (GDP) increased 1.5%. However, the Japanese Government recently reported that real GDP in January-March 2001 increased 1.0%, but declined 1.2% in the April-June 2001 quarter, 0.5% in the July-September quarter, and 1.2% in the October-December 2001 quarter, meaning that Japan is in recession. The Japanese unemployment rate was 5.3% in February 2002, high by Japanese standards but slightly below the record setting rate of 5.5% in December 2001.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced on June 26, 2001, a multipoint economic reform plan. The plan includes not steps to deal with bad loans, but reform of the structure of fiscal policies, reforming Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments that would be painful but would put Japan on course for economic growth in the long-term. (For more information on Japan's economic problems, see CRS Report RL30176, *Japan's "Economic Miracle": What Happened?.*)

When the Bush Administration assumed power on January 20, 2001, it indicated that, unlike the Clinton Administration, it would not publically confront Japan on its domestic economic policies but would confine its persuasion to private encouragement. It followed this approach during the first year. But continued Japanese economic problems and their possible effects on the United States and other economies have forced Bush Administration economic officials to more public in their comments. For example, on January 23, 2002, in Tokyo, Treasury Secretary O'Neill warned Japanese leaders that they had to take action to remedy their problem with non-performing bank loans. However, on February 18, 2002, during his visit to Tokyo, President Bush expressed support for Prime Minister Koizumi's efforts at economic restructuring. In a April 8 speech in Washington, Council of Economic Advisers Chairman Glenn Hubbard stated that Japan could not depend alone on exports to the United States to reinvigorate its economy.

Major Issues

Besides the growing imbalance in bilateral trade, the United States and Japan confront a range of issues, any or all of which could lead to sharpened tensions. The issues include a sudden increase in steel imports from Japan and U.S. concerns over implementation of past agreements. The United States and Japan also hold regular discussions over the latter's efforts at economic deregulation and on foreign investment in Japan. At their June 30, 2001 summit meeting at Camp David, Prime Minister Koizumi and President Bush agreed to the formation of the a bilateral forum to discuss issues of mutual concern.

U.S.-Japan Economic Partnership for Growth

On June 30, President Bush and Prime Minister Koizumi announced the formation of a new framework for addressing economic issues of mutual concern. The "U.S.-Japan Economic Partnership for Growth," (Economic Partnership) follows and draws from bilateral forums that previous U.S. administrations established with their counterpart governments in Japan. In each case the forum was designed to cover a broad range of complex issues.

The Economic Partnership will consist of several initiatives or dialogues to include participation from subcabinet level leaders from both governments and participation from members of the business communities and other non-government sectors from both countries. The U.S.-Japan Subcabinet Economic Dialogue will provide overall direction for the Economic Partnership. Other elements of the Economic Partnership include: the Regulatory Reform and Competition Policy Initiative (with working groups on telecommunications, information technologies, energy, and medical devices and pharmaceuticals, plus a cross-sectoral working group), which held its first meeting on March 13 and March 14; the Financial Dialogue; the Investment Initiative; and the Trade Forum. Each one of these elements will be responsible for reporting to the president and the prime minister on the progress of their work.

Steel Imports

In 1998 the United States experienced a sharp increase in imports of various types of steel products. Among the largest sources of the increases were Japan, Brazil, and Russia. U.S. imports of steel from Japan jumped nearly 162% from 1997 to 1998, according to Commerce Department data.

The surge caused the U.S. steel industry to seek remedies from the U.S. government and steel companies and labor unions filed a number of antidumping and countervailing duty cases. In August 5, 1999, the Clinton Administration announced a "steel action plan," under which it intends to address concerns of the steel industry. Among other things the Administration has pledged to enforce U.S. trade laws to remedy problems with antidumping and other practices by foreign steel exporters. In announcing the plan, the Administration labeled Japan as the primary source of the steel import surge in 1998. Subsequently, the United States requested bilateral talks with Japan on the steel situation to which Japan agreed, but the two countries failed to reach an agreement on what was to be done.

A number of Members of the 107th Congress are calling for the Bush Administration to take action to curtail steel imports. In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries and to bolster domestic producers. Steel workers and firms have cite a surge in steel imports after 1997 as a reason financial problems they face. They have claimed that dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete. They pressured the Clinton Administration and now the Bush Administration as well as the Congress to take action.

The 106th Congress passed and President Clinton signed the "Continued Dumping and Subsidy Act of 2000" (P.L. 106-387), the so-called "Byrd Amendment," enacted on October 28, 2000. The Act requires revenues from countervailing duty and antidumping orders to

be distributed to firms that have been injured by dumped and subsidized imports. On December 21, nine countries, including Japan, requested consultations with the United States as the first step in bringing their objections over the “Byrd amendment” to the World Trade Organization (WTO). The countries claim that the law violates U.S. obligations in the WTO. The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws.

In the meantime, the Bush Administration on June 22, 2001, submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitute a substantial cause or threat of “serious injury” to the U.S. industry under the section 201 (escape clause) statute. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. On March 5, President Bush announced that the government would impose higher tariffs on imports of selected steel products. On March 6, the Japanese government called the decision regrettable. On March 20, Prime Minister Koizumi’s government requested formal consultations with the United States through the WTO stating that the U.S. action was not in compliance with WTO rules and that the problems of the U.S. steel industry were due to its lack of international competitiveness and not imports. On May 17, Japan notified its intent to retaliate against U.S. safeguard measures on steel imports by imposing tariffs on imports of U.S. steel worth \$4.88 million on June 18 and is prepared to take further retaliatory action if the WTO rules against the U.S. safeguard action. In 2001, the United States imported \$1.9 billion in steel products from Japan, or 6.9% of total U.S. imports of steel products.

Implementation of Agreements

Bilateral, sector-specific agreements or understandings under which Japan agrees to take measures to open its markets to U.S. products or services in various sectors in response to U.S. complaints have been a staple of the U.S.-Japan trade framework for decades. But the agreements themselves are hardly ever the end of the issue. Disputes frequently arise over whether the agreement is being implemented correctly. Recently, U.S. industry and government officials have raised concerns about lack of progress under agreements reached during the last 6 years on access to Japanese markets in several sectors, for example, insurance, flat glass and autos. The Bush Administration has indicated that ensuring compliance with these agreements is one of its trade policy priorities.

In his March 7, 2001, testimony before the House Ways and Means Committee, USTR Zoellick indicated that the United States would continue to press Japan to restructure its economy and take measures to stimulate economic growth. In the 2001 Trade Policy Agenda/2000 Annual report, Zoellick stated that the United States would continue to monitor Japanese compliance with trade agreements.

Insurance. Market access in Japan for financial services has been an issue of growing importance in U.S.-Japanese relations. Financial services are heavily regulated, limiting participation by U.S. and other foreign companies and restricting entry by new domestic firms. Such has been the case with insurance. Specifically, American firms have complained that little public information is available on insurance regulations and on how

those regulations are developed, thereby, making it difficult to know how to get approval for doing business in Japan. They also assert that regulations favor insurance companies that are tied to business conglomerates—the keiretsu—making it difficult for foreign companies to enter the market.

Japan is the largest insurance market in the world with the United States closely following, but foreign insurers account for only a small portion of the market. After years of negotiations, the United States got Japan to agree in October 1994 to take measures to open its market for life insurance and nonlife insurance (fire and auto insurance). At the same time, Japan agreed to delay deregulation of the so-called third-sector insurance market, which encompasses specialty insurance coverage—such as cancer, hospitalization, nursing care, and personal accident—so as not to reduce the competitive advantages foreign firms, particularly U.S. firms, had built in this market.

At the end of 1995 and early 1996, U.S. officials and the American insurance industry were becoming concerned that Japan was reducing regulations on the third sector as well as the others contrary to the agreement. After many months, U.S. and Japanese negotiators reached agreement on December 15, 1996. Under the agreement, Japan would open life and nonlife insurance market to foreign competition and limit domestic company entry into the third sector until thirty months after it has made “substantial” progress in deregulating the life and nonlife sectors. But the United States has protested that Japan has already allowed domestic companies to enter the third sector. Japan has argued that it has already made the “substantial progress” stipulated in the agreement. The two sides have failed to agree to even meet to work out their differences. On February 24 2000, the Japanese government Financial Supervisory Agency announced that it would allow Japanese life and non-life insurance companies to do business in the third sector beginning January 1, 2001.

Autos and Autoparts. On June 28, 1995, the United States and Japan concluded an agreement on the sale of U.S.-made cars and autoparts in Japan. The announcement came hours before a deadline after which the Clinton Administration was prepared to impose sanctions of 100% tariffs on 13 models of Japanese-made luxury cars. The agreement covered Japanese business practices and government regulations that the United States claims prevented U.S. manufacturers from gaining larger shares of the Japanese market in three product areas: autos; original equipment and accessories for autos; and replacement autoparts. On December 3, 2000, the bilateral pact on trade in cars and autoparts expired. The United States pressed Japan to renew, but Japan resisted. On June 26, 2001, a bipartisan group of members of the House and Senate sent a letter to President Bush urging him to push for the pact’s renewal during his June 30 meeting with Koizumi. President Bush reportedly raised the issue of the difficulty of U.S. exporters of cars and autoparts to penetrate the Japanese market. On July 19, Assistant USTR Wendy Cutler proposed in a meeting with the Ministry of Economy, Trade and Industry, that the United States and Japan form a bilateral discussion forum on auto trade issues under which both sides would hold regular discussions. Japan is reportedly still considering the proposal. (*Inside U.S. Trade*. Aug. 24, 2001.)

Flat Glass. In 1995 the United States and Japan concluded an agreement to improve access of foreign flat glass producers to the Japanese domestic market. The agreement was in response to complaints by U.S. producers that they were locked out of the Japanese market which has been effectively controlled by three Japanese companies. U.S. manufacturers alleged that a combination of anticompetitive private-sector business practices and Japanese

government regulations restricted entry into the market. Under the 1995 agreement the Japanese government pledged to revise building regulations to encourage the use of foreign-produced glass and to more vigorously enforce the Anti-Monopoly Law against anticompetitive practices. Private sector consumers and wholesalers pledged to broaden their source of supplies to include foreign glass. The agreement expired at the end of 1999. Negotiations for an extension of the agreement failed with the United States pressing for an extension and Japan resisting.

Deregulation

Underlying many of the market access problems U.S. firms have with Japan are the large number of regulations that have been in place on many aspects of Japanese economic activity. Some of these regulations are a product of the immediate post-war era when Japan was rebuilding its economy. Others came later. These regulations have contributed to low productivity in some economic sectors. They have been a factor in the limited choices that Japanese consumers have had in food and other products and also have resulted in the notoriously high prices that Japanese residents must pay for what Americans would consider to be staples.

Japanese policymakers have recognized the adverse economic effects of government regulations but the difficulty has been in implementing reforms. The Economic Planning Agency of Japan released a study in November 1994 indicating the adverse productivity and price effects of regulations and calling for regulatory reform. Recent Japanese governments have promised to undertake deregulation but in many cases they run up against the powerful elements of the permanent bureaucracies of the ministries — Ministry of Finance, Ministry of Agriculture, and Ministry of Construction — that implement the regulations and that would lose authority if extensive deregulation were to take place.

The Clinton Administration held discussions with Japan on deregulation. It specifically would like Japan to address regulations in agriculture, autos and auto equipment, construction materials, the distribution system, energy production, financial services, foreign investment, legal services, medical equipment and pharmaceuticals, and telecommunications. Among other things, the United States would like to see more private-sector participation — both Japanese and foreign — in the review of regulations, more transparency in the regulatory process, and the use of measurable indicators — such as price effects — to assess progress in deregulation.

On November 26, 1996, the Action Plan Committee of the Economic Council, an advisory group to then-Prime Minister Hashimoto, released recommendations for deregulation in six economic and social sectors: advanced information and telecommunications; transportation and distribution; financial services; land and housing; employment and labor; and medical and welfare services. The plan did not include the break-up of NTT as recommended by the United States.

On June 19, 1997, USTR Barshefsky announced that the United States and Japan reached agreement on a new framework to discuss deregulation issues to liberalize commerce between them: the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy. Among other things, the agreement stipulates that both sides will raise deregulation issues regarding the other.

On May 15, 1998, Japan announced a deregulation package covering the telecommunications, housing construction, medical devices/pharmaceuticals, competition policy, the distribution system, and other sectors of concern to the United States. USTR Barshefsky called the package an important step that required follow-up actions.

On March 30, 1999, U.S. and Japanese negotiators announced that they would continue talks on deregulation to resolve differences but disputes over NTT interconnection access fees to their networks boughed down the discussions. The United States argued that the high fees prevented competing telephone service companies access to the Japanese telephone service market. The Japanese government replied that it is willing to gradually decrease rates by 22% over a four-year period beginning at the end of 2000 but that rapid decreases would force NTT to raise rates to its basic end-users and would cut NTT revenues. The two sides reached agreement on July 19 that is to lead to a reduction on average of 35% in interconnection fees over the next two years, retroactive to April 1, 2000. NTT agreed to reduce fees charged to American and other foreign telecommunications providers by 50% over the next two years but reduce fees to local firms and the Japanese public by 20% over the next two years with further reductions to follow. The agreement was reached just prior to the beginning of the 21-23 July G8 summit in Okinawa

The agreement over the interconnection fees allowed the two sides to complete and release a report on accomplishments during the third year of the Enhanced Initiative. But the two sides also agreed to extend the discussions under the Initiative for another, fourth, year.

USTR Zoellick has indicated that the Bush Administration will continue to press Japan on deregulation. At the June 30 summit meeting, the two sides released the fourth and final report of the Enhanced Initiative. The work of the Enhanced Initiative will continue but under the Regulatory Reform and Competition Policy Initiative (the Initiative) as part of the Economic Partnership (The group is described above and held its first meeting on March 13 and March 14, 2002.) In a July 31 letter to President Bush, Senate Finance Committee Chairman Max Baucus and ranking member Sen. Charles Grassley requested that market access barriers, which largely result from competition and regulatory practices and policies, be part of the discussions of the bilateral Initiative. On October 16, 2001, the United States presented Japan with some recommendations regulation reform in a number of areas, including information technologies, telecommunications, medical services, energy and competition policy.

Foreign Investment in Japan

The level of foreign direct investment in Japan is lower than in other fully industrialized countries. Beginning in the 1950s, the Japanese government severely restricted foreign direct investment to build up Japanese ownership in fledgling industries, such as the automobile sector. Many U.S. companies that have a large presence in Japan, such as IBM and Coca-Cola, originally established themselves before restrictions were put in place.

Although Japan has liberalized controls, foreign direct investment has remained low. Some analysts point to the high costs of establishing business in Japan that results from high price for land, especially in business centers like Tokyo. The yen appreciated sharply against the dollar since 1985, which increased costs for dollar holders. Analysts and companies that want to do business in Japan also cite Japanese government regulations that indirectly inhibit

foreign investment. For example, Japan's Large Retail Store Law has protected small retail outlets from competition by imposing burdensome requirements on foreign and domestic entities that wanted to establish large, more efficient retail operations. As a result of pressure from the United States and domestic consumers, the Japanese government revised the Large Retail Store Law to ease entry. As a result, some American-owned chains, such as "Toys R Us," are becoming well-known in Japan. Japan's demand for foreign capital is not as high as the U.S. demand because of the high Japanese savings rate, and this factor probably contributes to the lower level of foreign investment in Japan.

American business officials argue that trade follows foreign investment; that is, once a foreign company has established itself abroad, it imports from the host country increasing the home country's exports. Economists have debated this notion.

The United States and Japan are pursuing talks on foreign investment. U.S. objectives in the discussions are to get Japan to increase financial incentives for foreign investment, change regulations that have made acquisitions and mergers difficult, extend the period in which investors can carryover losses for tax purposes, and change taxation on real estate to reduce the financial burden on investment. Foreign investment in Japan has increased rapidly recently. By the end of the Japanese fiscal year 2000 (Apr. 2000- Mar. 2001) the level of foreign direct investment in Japan had increased 22 % over JFY 1999 which had increased 56% over JFY 1998.

Regional and Multilateral Negotiations

The United States and Japan have been among the most important architects of the General Agreement on Tariffs and Trade (GATT) and among the most significant members of the World Trade Organization (WTO), the successor organization to and the implementing body of the GATT. Both countries are also founding members of the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling body of 21 member economies of the region.

While the United States and Japan continue to address many issues through bilateral negotiations, both countries are relying to a greater extent than in the past on the multilateral dispute settlement mechanism in the WTO. In part this trend is due to the GATT's broader coverage. As a result of the Uruguay Round agreements, the GATT (and therefore the WTO), covers a broader range of trade practices pertaining to manufactured goods and also some previously uncovered practices in agricultural products, services, and foreign investment. In addition, the Uruguay Round agreements helped to address fundamental weaknesses in the GATT dispute settlement mechanism — the ability of a country to veto a judgement rendered against it and the long process leading up to a judgement.

Although Japan and the United States share the WTO goal of trade liberalization, they do not necessarily agree on how the WTO and its members should get there. For example, the two countries disagreed at the November 1999 Seattle Ministerial on an agenda for a new round of multilateral negotiations. Among other things, Japan has argued that member countries' antidumping practices and policies should be reviewed, which the United States has rejected. The United States has called for early elimination of tariffs on products in a

number of sectors — a move that Japan has resisted. Their disagreements arguably contributed to the failure of the meeting.

The members of APEC have agreed to the goal of establishing free trade and investment among them by 2010 for the fully industrialized countries and by 2020 for all countries. In the meantime, each member economy has submitted an action plan outlining unilateral measures it will take to liberalize and facilitate trade and investment. All members have agreed on measures to open trade and investment in the region. The United States and Japan have been the most influential economies in shaping and implementing the free trade agenda of APEC. APEC is evolving into a body that supplements, rather than substitutes for, multilateral negotiations. APEC's principles of WTO compatibility and "open regionalism" allow the forum to be a platform on which its members can develop a regional consensus on issues of mutual interest.

The Outlook for U.S.-Japan Economic Relations

The size of their economies dictates that the United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. Japan's share of U.S. exports has declined from about 11.0% in the early 1990s to 8.2% in 1999 as Mexico has become a more important market. Also Japan's share of U.S. imports has dropped from 20.8% in 1987 to 12.8% in 1999 as China has become an increasingly significant source of U.S. imports.

Good indicators of the future climate in U.S.-Japan economic relations and the progress they are making on pending and upcoming issues, including the following:

- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to growing tensions; economic growth and reform in Japan;
- growing imports of steel into the United States from Japan that the U.S. steel industry charges are being dumped on to U.S. markets; and implementation of the auto and autoparts agreement.

LEGISLATION

H.Res. 16 (Traficant et al.)

Resolution calling on the President to take all measures to respond to the surge of steel imports resulting from the financial crises in Asia, Russia, and other regions, and for other purposes. Introduced January 3, 2001; referred to Committee on Ways and Means, Subcommittee on Trade.

FOR ADDITIONAL READING

CRS Products

CRS Issue Brief IB97004. *Japan-U.S. Relations: Issues for Congress* by Richard Cronin

CRS Report RS20633. *Japan's Telecommunications Deregulation: NTT's Access Fees and Worldwide Expansion*, by Dick K. Nanto.

CRS Report RL30272. *Global Financial Turmoil, the IMF, and the New Financial Architecture*, by Dick K. Nanto.

CRS Report RS20335. *Japan's Landmark Financial Deregulation: What It Means for the United States*, by Dick K. Nanto.

CRS Report RL30176 *Japan's "Economic Miracle": What Happened?*, by William H. Cooper

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Japan-U.S. Relations: Issues for Congress

SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. The Japanese government headed by Prime Minister Junichiro Koizumi has welcomed the Bush Administration's desire to deepen alliance relations and its avoidance of publicly resorting to *gaiatsu* ("foreign pressure") in addressing American concerns about Japan's serious and economic and financial problems.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade, U.S. foreign policy, ballistic missile defense (BMD), and regional security issues. The latter include North Korean nuclear and missile proliferation, China's emergence as a potential U.S. military adversary, and U.S. military bases in Japan, whose importance has been underscored once again by their by U.S. forces engaged in the anti-terrorist campaign in Afghanistan.

Despite resistance from the larger of the of the Koizumi government's two coalition partners and the main opposition party, the Koizumi government gained parliamentary passage in October 2001 of legislation permitting the despatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. Because of a constitutional ban on offensive military action not strictly for self-defense, Japanese ships have been restricted to non-combat support.

Due to its own concerns about North Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense

capabilities even as it increases cooperation with the United States under revised defense cooperation guidelines that were agreed to in September 1997. Japan also has committed to participate in joint research and development of a ballistic missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit reached a record \$81.3 billion in 2000, dropped sharply to \$69 billion in 2001 because of a shrinking Japanese economy (-1.0% GDP growth in 2001) and the U.S. economic slowdown.

Congress has reacted critically to alleged steel dumping by Japan, and the 106th Congress enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured by dumped and subsidized imports.

The Bush Administration has paid somewhat less attention to the trade deficit than did the Clinton Administration, while issuing increasingly pointed requests that Japan deal vigorously with its huge problem of bad bank loans, which are a drag on the economy, and follow-through on structural reforms. However, on March 5 the Administration imposed additional "safeguards" tariffs on certain steel imports from Japan and a number of other countries under Section 201 of U.S. Trade Law, on grounds that a surge in imports has damaged or has the potential to damage U.S. firms. Japan promptly filed a request with the World Trade Organization (WTO) for consultations with the United States over the decision, the initial step in filing a WTO complaint.

MOST RECENT DEVELOPMENTS

On June 13, the Japanese government announced that it would delay taking retaliatory action against U.S. steel exports that it had originally indicated it would take by June 18. The action would have been in response to the Bush Administration's March 5 decision to impose additional tariffs on imported selected steel products. The Administration's decision was the result of a Section 201 investigation and the United States International Trade Commission's determination that steel imports seriously injured or threatened to seriously injure U.S. steel producers.

In May 2002 Japan and the United States clashed at a meeting of the International Whaling Commission in Japan's former whaling port of Shimonoseki. Following a peremptory rejection of a request by Japan to allow the taking of 25 minke whales by what the Japanese described as "aboriginal peoples" in four communities in northern Japan, the Japanese delegation blocked a consensus vote on a U.S.-Russian motion to allow Alaskan Inuit peoples and Indian tribes to continue to kill 61 bowhead and gray whales annually. A revised U.S. plan to allow the taking of 11 bowhead whales for five years by the Inuit failed narrowly to gain the needed three-quarters majority. Japanese officials charged that the United States, which has consistently opposed Japanese requests to expand coastal whaling, as reflecting a "double standard," while the leader of the U.S. delegation decried Japan's action as "the most unjust, unkind and unfair vote that was ever taken" by the IWC.

BACKGROUND AND ANALYSIS

U.S.-Japan Cooperation and Interdependence

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy.

Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan generally disproved the concerns of some commentators that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administration's bid for closer security cooperation and coordination. As evidenced by the President's March 2002 decision to impose a series of anti-dumping tariffs to protect the struggling U.S. steel industry, on the other hand, Japanese hopes for a relaxation of U.S. trade and economic policy pressure have been partially disappointed.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi set the tone for relations at a summit meeting at the Camp David presidential retreat on June 30, 2001. President Bush indicated strong support for the Japanese Prime Minister's economic and financial reform program, while Prime Minister Koizumi pledged to pursue cooperation across a broad front and couched his concerns about the Administration's abandonment of the Kyoto Treaty and its ballistic missile defense program in positive terms.

President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi on issues such as alliance relations, cooperation against terrorism, and Japan's continuing economic slump, and addressed a joint session of the Japanese Diet (parliament). The President publicly praised Prime Minister Koizumi's economic reform program, but reportedly spoke bluntly about U.S. concerns in private.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The New York attacks especially shocked Japan, which had a large commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. Prime Minister Koizumi strongly condemned the attacks and took a number of steps to protect U.S. personnel and assets in Japan and position his country to support the Bush Administration's anti-terrorist campaign, overcoming resistance not only from the opposition Democratic Party (DP) but also from Old Guard rivals in his own Liberal Democratic Party (LDP) and his pacifist-inclined coalition partner, the New Komeito.

On October 30, 2001, the Upper House of the Japanese Diet (parliament) cleared two bills giving unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to "show the flag" in a non-combat role in support of U.S. and allied military operations in the Indian Ocean area. Legislation valid for a period of two years, and extendable, allows the SDF to provide "rear area" support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. The legislation was implemented in the form of a "Basic Plan" adopted by the Cabinet on November 16, 2001. In an effort to reconcile the terms of Japan's "no-war" constitution with U.S. expectations, Maritime SDF vessels are allowed under the legislation to transport nonlethal supplies to U.S. forces, but not arms and ammunition. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on "collective defense" activities.

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, to provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla

consisting of four destroyers, two fleet oilers, and a minesweeper (to ferry supplies) that the Japanese government will send to the region under a “basic plan” that has been formulated to respond to U.S. requests for anti-terrorist assistance. The plan, which is limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia. Due to objections from within the ruling coalition, the Koizumi government decided not to send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States had informally requested.

As of late April 2002, all but two of the deployed ships, an oiler and a destroyer, had returned to Japan. However, the Japanese Cabinet decided on May 17, 2002, to extend the life of the Basic Plan until November 17, 2002. Reportedly, the United States has asked informally for the despatch of an Aegis destroyer so that a U.S. Navy Aegis cruiser can rotate into the Persian Gulf in the event of a conflict with Iraq, but consideration was put on hold after accusations were raised that officials in the Japan Maritime Self Defense Force (JMSF) had informally asked U.S. counterparts to make the request. Opposition and ruling party Diet Members have raised objections previously that establishing a wartime data link between U.S. and Japanese ships would violate the current interpretation of the Constitution that “collective security” are unconstitutional. Additionally, the government – as of mid-June 2002 – is seeking Diet approval for three controversial bills giving it broader crisis management and emergency response authority to deal with various situations involving armed attack on Japan or emergency situations in which an attack is anticipated. The prognosis for the legislation remains uncertain.

In regard to economic assistance measures, on November 14 the Japanese government announced an emergency grant of \$300 million to Pakistan covering refugee relief and other needs for a period of two years – a quantum increase over the \$40 million initially committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Japan joined the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20, and hosted a donors meeting in Tokyo that began on January 21, 2002, at which it pledged \$500 million for reconstruction aid over the next two years. In May 2002 the Japanese government committed about \$187 million in grant aid for three projects being carried out by non-government organizations (NGO) covering well-drilling in Northern Afghanistan, the rehabilitation of a hospital in Kabul, and mechanical mine clearing around Kabul airport.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China’s rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate – as at present. Japan’s own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan’s concerns about China’s rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan’s past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The

Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy.

Recently, Tokyo and Beijing also have engaged in trade confrontation. In response to Tokyo's imposition of anti-dumping tariffs against certain Chinese agricultural exports, China has imposed 100% duties on Japanese exports of autos, cell phones, and air conditioners.

Sino-Japanese relations took an upturn as a result of Prime Minister Koizumi's visit to Beijing on October 8, 2001. The agenda included a visit by Koizumi to the Marco Polo Bridge, near Beijing, the site of a manufactured incident that triggered Japan's 1937 invasion of China. During the visit Koizumi conveyed the fullest apology for past wrongs ever delivered by a Japanese Prime Minister.

Relations remain strained over military issues, including Japanese concern about fast-rising Chinese defense budgets and Chinese objections to the rising profile of the Japanese Self-Defense Forces. In late December 2001, acting under revised rules of engagement, Japanese Maritime Self-Defense Forces ships chased into the East China Sea, a presumed North Korean spy boat that had penetrated into Japanese coastal waters. As the Japanese ships closed in, the crew of the mystery ship reportedly fired hand-held weapons at the Japanese before scuttling and sinking their own vessel. Reportedly, initial intelligence about the ship was provided by U.S. forces. Both China and South Korea have expressed concern about the fact that the ship was sunk in international waters, within China's 200-mile Exclusive Economic Zone (EEZ), and China opposes Japanese plans to raise the ship.

Converging Korean Peninsula Priorities. The United States and Japan share the same broad objectives regarding the unstable Korean Peninsula, but Japanese officials frequently have expressed a feeling of being left out of U.S. decisionmaking. Japanese policymakers appear torn between a desire to move slowly and deliberately on normalizing relations with North Korea, and worry about becoming isolated from U.S.-South Korea-North Korea diplomacy. Tokyo agreed reluctantly under pressure from the Clinton Administration to commit to pay about \$1 billion towards the construction of two light water nuclear power reactors for the North under the October 1994 U.S.-North Korea "Agreed Framework," but only agreed to provide food aid to North Korea in October 2000, after a five-year suspension. Japan again suspended food shipments to North Korea after a December 2001 confrontation at sea with a suspected North Korean spy boat, which had penetrated into Japan's territorial waters. After fighting a running gun battle with Japanese Coast Guard vessels, the North Koreans apparently scuttled their boat within China's 200-mile Exclusive Economic Zone (EEZ), leading to angry exchanges between Tokyo and North Korea, and also criticism of Japan from Beijing and Seoul for acting too aggressively.

From time to time Japanese leaders have shown anxiety over the possibility that U.S. negotiators would ignore Japanese concerns about the threat from North Korea's short-range "Nodong" missiles and the fate of some 10 Japanese citizens allegedly kidnapped by North Korean agents during the period 1977-1980. Japanese officials and commentators have welcomed indications that the Bush Administration is moving more cautiously and slowly in normalization discussions with Pyongyang, and is perceived to be paying close attention to Japanese concerns. Unlike many European leaders, Prime Minister Koizumi did not

criticize President Bush's State of the Union reference to North Korea, along with Iraq and Iran, as part of an "Axis of Evil."

Japan has tried in part to compensate for sometimes feeling "left out" of U.S. policymaking towards the Korean Peninsula by itself drawing closer to the South Korean government headed by President Kim Dae Jung. The high point of this effort was South Korean President Kim Dae Jung's state visit to Japan in October 1998, during which Tokyo issued its first ever written apology for its past treatment of Korea. Recently, however, Japan-South Korea relations have been buffeted by the same issues arising out of Japan's wartime past that have afflicted Sino-Japanese relations. A visit to Seoul by Prime Minister Koizumi in early October 2001 was marred by anti-Japanese demonstrations and failure to resolve a sensitive fishing issue.

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be "meaningless" without the participation of the United States, the producer of 25% of the world's greenhouse gases.

When President Bush and Prime Minister Koizumi met at Camp David on June 30, 2001, the Japanese leader indicated that he did not intend to proceed to sign the Kyoto Treaty without the United States, but that he hoped that the two countries could cooperate to address global warming issues. During a subsequent visit to the United Kingdom Koizumi indicated that he still hoped to persuade the United States to sign the treaty, but that it was pointless for Japan to sign the treaty if the United States stayed aloof. On July 23, 2001, at a world conference on climate change in Brussels, however, Japan and the European Union reached a compromise on the final terms for implementation of the Kyoto Treaty. The Japanese-EU bargain on modifications to the treaty opened the way towards bringing the treaty into effect despite the decision of the Bush Administration not to ratify the treaty. (Such implementation would not bind the United States unless the U.S. Government ratifies the treaty as well.)

The Whaling Issue. Members of Congress and Executive branch officials have criticized Japan's decision to continue and expand whaling activities, which it claims are essential for scientific research and support of traditional lifestyles in several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing its whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed several resolutions asking Japan to curtail its research whaling,

in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde's whales, due to concerns that increasing whale populations might threaten fish harvests. Because the sperm whale is on the U.S. list of endangered species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of additional sanctions, which could have been imposed under U.S. law, the United States and Japan convened a panel of experts to resolve the dispute over Japan's scientific research whaling program. This panel met initially in early November 2000, proposing that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. Japan generated additional international criticism in late February 2002 when it notified the IWC that it planned to double its annual take of minke whales in the North Pacific from 50 to 100, and to also take 50 sei whales, which are listed by the United States as an endangered species. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

Claims of Former World War II POWs and Civilian Internees. Congress has also indicated intense interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107th Congress seek to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). (See Legislation section, below.) The conference report explains that the provision was dropped because the adamant opposition of the President would have

jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable “parliamentary tactic.”

On September 7, 2001, senior U.S. and Japanese officials and former senior officials attended ceremonies in San Francisco marking the 50th anniversary of the U.S. Japan Peace Treaty, which ended the U.S. occupation. Foreign Minister Tanaka repeated a 1995 statement by then Prime Minister Murayama, that “We have never forgotten that Japan caused tremendous damage and suffering to the people of many countries,” and that its actions “left an incurable scar on many people, including former prisoners of war.” The statement failed to satisfy protesters who have been demanding compensation for former POWs and civilian internees who were forced into slave labor. (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Security Issues

(This section written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A

complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

Revised Defense Cooperation Guidelines. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in "situations in areas surrounding Japan" including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan's current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan's role in implementing the 1997 defense guidelines, including crises in "areas surrounding Japan."

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea's missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. The Japanese government has expressed concern over Secretary of Defense Donald Rumsfeld's reported efforts to eliminate the distinction between NMD and Theater Missile Defense (TMD). The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control systems designed for the U.S. Navy's Aegis air defense system, which is

seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system.

Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability. In late August 2001 the Japanese media reported that the Japan Defense Agency (JDA) had requested a doubling of its current budget for missile defense research to about \$66.5 million for FY2002. The budget request, which seeks a 1.8% increase in the face of cuts of up to 10% in other ministries, also includes funds for two new destroyers equipped with the Aegis radar and fire control system, including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL31337. *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Economic Issues

(This section written by William Cooper)

Despite Japan's long economic slump, trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5% but *declined* 0.5% in 2001. The Japanese unemployment rate was 5.2% in March 2002, high by Japanese standards but slightly below the record setting 5.5% in December 2001. Most mainstream economic forecasters predict the recession in Japan will continue throughout the current year but may recover in 2003. The outlook is a major disappointment to Japanese economists and policymakers who had hoped that the Japanese economy would finally recover.

Another sign of a weakening Japanese economy has been the rapid depreciation of the yen. The Japanese yen has depreciated in the last year in terms of the dollar making U.S. exports to Japan more expensive and imports from Japan cheaper causing U.S. exporters and import-sensitive producers some competition concerns. On January 2, 2001, the yen/dollar exchange rate was ¥114.75=\$1.00. On April 1, 2002, the rate was ¥133.32=\$1.00, a 12.1%

yen depreciation. The yen has appreciated somewhat to ¥124.35=\$1.00 on June 17, 2002. In an April 8 speech in Washington, Council of Economic Advisers Chairman Glenn Hubbard stated that Japan could not depend on exports to the United States alone to reinvigorate its economy. In a January 23, 2002 speech in Tokyo, Secretary of the Treasury O'Neill warned Japan that the United States did not support a policy of a weak yen as a way for Japan to stimulate its economy. Some Members of Congress have charged that Japan is manipulating the value of the yen downward in order to boost Japanese exports.

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan in June 2001. The plan included not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-term. However, the Koizumi government appears to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking reform also remains a problem. On March 29, 2002, the Koizumi government announced a package of new deregulation reforms with an emphasis the social sphere— medical care, education, labor and public services. The reforms are to be implemented over a three-year period.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy.

Table 1. U.S. Trade with Japan, 1996-2001
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0

Source: U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s .basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of “serious injury” to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. On March 5, President Bush announced that the government would impose higher tariffs on imports of selected steel products. On March 6, the Japanese government called the decision regrettable. On March 20, Prime Minister Koizumi’s government requested formal consultations with the United States through the WTO, stating that the U.S. action was not in compliance with WTO rules and that the problems of the U.S. steel industry were due to its lack of international competitiveness and not imports. The Japanese government threatened to impose retaliatory tariffs on U.S. steel exports worth \$5 million by June 18. However, on June 13, the government announced it would delay taking action.

The United States and Japan have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries, such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

At their June 30, 2001 summit at Camp David, President Bush and Prime Minister Koizumi agreed to establish a sub-cabinet level forum – the “U.S.-Japan Economic Partnership for Growth” – to discuss economic issues of mutual concern, such as overall economic policies and deregulation, and persistent sector-specific concerns including autos and autoparts, insurance, and flat-glass. The forum includes business representatives and other non-government experts as well as government officials.

The United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. The climate in U.S.-Japan economic relations will likely be judged on how the two countries manage pending and future issues, including the following:

- Japanese challenges of U.S. AD, CVD, and other trade laws in the WTO;
- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to bilateral tensions;
- surges in U.S. imports of import-sensitive products, for example steel;
- economic growth and reform in Japan and their impact on the United States;
- and

- the ability of the two countries to work together to promote a common agenda in the WTO, the Asian-Pacific Economic (APEC) forum and other organizations.

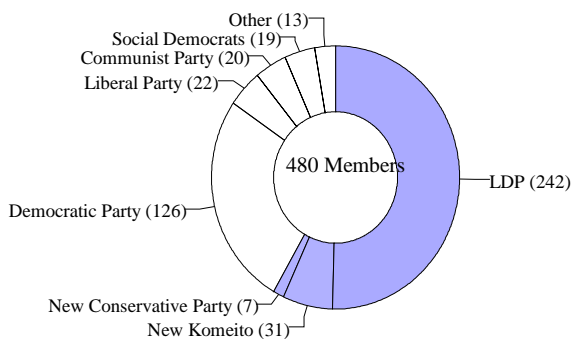
Japanese Political Developments

(This section written by Mark Manyin)

Current Situation. In the weeks after his unconventional rise to power in April 2001, the extraordinary popularity of Prime Minister Junichiro Koizumi helped propel the ruling coalition dominated by the Liberal Democratic Party (LDP) to significant victories in successive two parliamentary elections. The key to his popularity was his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. For months, Koizumi's public approval rating remained well over the 70% level despite Japan's worsening economic situation and a growing sense that Koizumi was unlikely and/or unwilling to follow through on his promises to radically reform the economy and the political system.

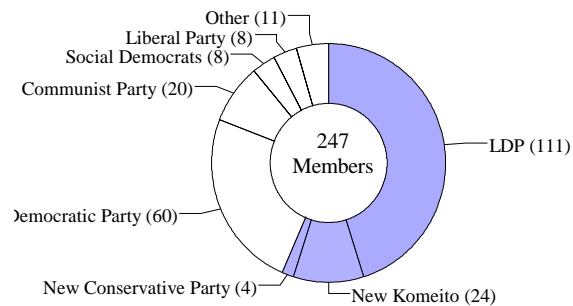
Lower House Composition

Color Slice = Ruling Coalition Member



Upper House Composition

Color Slice = Ruling Coalition Member



Koizumi's approval ratings began plummeting in early February 2002, however, after he dismissed the intemperate and gaffe-prone but highly popular Foreign Minister, Makiko Tanaka, over a dispute with Foreign Ministry bureaucrats and a prominent LDP politician. Although most Japanese appeared ambivalent about Tanaka's performance as a diplomat, they had applauded her attempts to reform the scandal-plagued Foreign Ministry and her frequent criticisms of the LDP's decision-making system. Her dismissal was taken as a sign that Koizumi had bowed to the wishes of the LDP's powerful old guard factions that are strongholds of the "old economy" interests that are most threatened by Koizumi's agenda. A series of corruption scandals among the LDP leaders have sent Koizumi's public approval ratings below the 50% level for the first time. Because Koizumi's popularity was one of the few weapons he could wield in his efforts to seize the machinery of government away from the LDP's kingpins, the prospects for his economic reform program have become even more clouded. However, there appear to be no politicians in the LDP or in Japan's opposition parties that have the political strength to challenge Koizumi in the near future.

Background - The Political System's Inertia. Despite over a decade of economic stagnation, or negative growth, Japan's political system – indeed, many of Japan's economic policies – have remained fundamentally unchanged. What accounts for this striking inertia? Three features of Japan's political system give vested interests an inordinate amount of power in Japan: the extreme compartmentalization of policy-making; the factional divisions of the Liberal Democratic Party; and the weakness of the opposition parties. Many of Koizumi's farthest-reaching reforms actually are attempts to alter the first and second of these characteristics.

The Compartmentalization of Policy-Making. To a striking degree, Japan's policymaking process tends to be heavily compartmentalized. Policy debates typically are confined to sector-specific, self-contained policy arenas that are defined by the jurisdictional boundaries of a specific ministry. Each policy community stretches vertically between bureaucrats, LDP policy experts, interest groups, and academic experts. Unlike in most industrialized societies, each policy arena in Japan is so self-contained that cross-sectoral, horizontal coalitions among interest groups rarely form. One reason for this is that bureaucrats are paramount in most of Japan's policy compartments. Only in matters involving highly politicized industries such as agriculture and security policy have politicians and interest groups become significant players in the policymaking process. Even in these areas, responsibility for carving out the details of policy still rests with the bureaucrats, in part because Japanese politicians often only have a handful of staffers to assist them.

Furthermore, the LDP's policymaking organ, the Policy Affairs Research Council (PARC), itself is segmented into specialist caucuses (often called "tribes" or *zoku*), so that competing interests – such as protectionist farmers and export industries – rarely face off inside the LDP. For this reason, the LDP often finds it difficult to make trade-offs among its various constituencies. The result is often paralysis or incremental changes at the margins of policy. Koizumi has attempted – thus far with limited success – to change this by centralizing more power in the Prime Minister's office, at the expense of the PARC and the bureaucracies.

The Factional Nature of the Liberal Democratic Party. The LDP has been the dominant political force in Japan since its formation in 1955. It is not a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. Because the LDP president (who *de facto* becomes Japan's prime minister) is not the true leader of the party, he often lacks the power to resolve divisive intra-party disputes or even to set the party's agenda.

For over two decades, the LDP's dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto, who in April 2001 was surprisingly defeated by Koizumi in the selection for LDP President due to an unprecedented revolt by reformist local party members. Koizumi, who originally came from a rival faction, has called for doing away with the faction system. Coinciding with his selection as LDP President, Koizumi bucked party tradition first by resigning from his own faction and then by giving the anti-reformist Hashimoto group only one Cabinet post.

One result of the LDP's opaque, top-down decision-making structure is that it has been slow to adapt to changes in Japanese society. The LDP has coddled many of Japan's declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party's political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP's top leaders have been implicated in various kickback scandals. Compounding the problem is that Japan's electoral districting system overweights rural voters compared with more reformist-minded urbanites; each rural vote is worth an estimated 2.3 urban votes.

Over the past decade, a bloc of independent voters – who now constitute a majority of the voting population – has arisen opposing the LDP's "business as usual" political system. Urban, younger, and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform. Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The rise of unaffiliated voters helps explain the LDP's steadily declining strength in the Diet (the Japanese parliament) over the past decade. Since it was briefly ousted from power in 1993 and 1994, the LDP's lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass, making radical policies that much more difficult to adopt.

The Weakness of the Opposition Democratic Party of Japan (DPJ).

Koizumi's declining popularity has given new life to the DPJ, which for months had been on the defensive. Until Koizumi's rise to power in April, the DPJ had been expected to do well in the July 2001 Upper House elections, in which it ultimately gained three seats. In contrast, the DPJ had scored significant gains during Lower House elections in 2000, when the party increased its strength from 95 to 127 seats, largely due to the support of independent urban voters. The DPJ, which describes itself as "centrist," is led by Yukio Hatoyama, a former LDP politician whom most analysts consider to be a standard bearer lacking the charisma and outspokenness sought by many Japanese independent voters. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20%. Some commentators have speculated that Koizumi may attempt to realign the Japanese political scene by bolting from the LDP and allying with the DPJ's more conservative wing, led by Hatoyama. Hatoyama and his main challenger, the left-of-center DPJ Secretary General Naoto Kan, have begun to square off in anticipation of the intra-party vote.

U.S. Policy Approaches

(This section written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress and the wider public broadly agree across party, ideological, and interest group lines on the need to reduce the U.S.-Japan trade deficit while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

1) Emphasize Alliance Cooperation. Some, notably President George W. Bush and his Asian and economic policy advisors, favor emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers were given highest priority. Proponents of this approach tend to see threats to regional stability such as China's growing assertiveness and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

2) Emphasize U.S. Trade and Economic Objectives. A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of getting Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy, relying on pragmatism in both capitals to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate. Some academic and "think tank" proponents of this approach view Japan as a "free-rider" on U.S. security protection, and a few argue that U.S. economic and other interests would be better served by a phased military withdrawal from Japan. The Bush Administration has indicated that it intends to firmly commit to a policy of emphasizing alliance cooperation, but some in Congress may continue to call for measures to redress the trade imbalance and in particular for additional measures to counter surges of Japanese imports that damage U.S. industries.

LEGISLATION

H.Amdt. 188 (A022) (Rohrabacker)

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law on November 28 (P.L. 107-77).

H.Res. 65 (King, Peter T)

Establishing a Select Committee on POW and MIA Affairs. Introduced Feb. 27, 2001. Referred to House committee.

H.R. 2835 (Cox)

To authorize the payment of compensation to members of the Armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the House Committees on Veterans; Ways and Means; and Judiciary, Oct. 31, 2001.

S. 1272 (Hatch)

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001. Referred to the Committee on the Judiciary by unanimous consent, June 18, 2002.

S. 1302 (Bingaman)

A bill to authorize the payment of a gratuity to members of the armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Introduced August 2, 2001. Referred to Committee on Veterans' Affairs.

S.Amdt. 1538

Amends H.R. 2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by yea-nay vote of 34-58; recorded vote number: 276. Adopted by voice vote, September 10, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15. Signed into law on November 28, 2001 (P.L. 107-77).

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SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. Although the Bush Administration came into office with an avowed determination to promote closer alliance relations, the failure of the government headed by Prime Minister Junichiro Koizumi's inability to overcome economic stagnation that has lasted more than a decade has started to lower U.S. regard for a country which still remains an important military ally.

U.S.-Japan relations concern Members and Committees with responsibilities or interests in trade and international finance and economics, U.S. foreign policy, ballistic missile defense (BMD), and regional security. The latter include North Korea's nuclear and missile proliferation, China's potential emergence as the dominant regional military power, and U.S. military bases in Japan, whose importance has been underscored once again by their role in facilitating the operations of U.S. forces in Afghanistan and will likely also be important if war with Iraq ensues.

In October 2001 the Koizumi government gained parliamentary passage of legislation permitting the despatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. This was achieved despite constitutional objections from both within and outside of the ruling Liberal Democratic Party (LDP)-led coalition. Because of a constitutional ban on military action not strictly for self-defense, Japanese ships and aircraft were restricted to non-combat support. In May 2002 the Koizumi government extended the authority for another six months.

Due to its own concerns about North Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases cooperation with the United States under revised defense cooperation guidelines agreed to in September 1997. Japan is also participating in joint research and development of a ballistic missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit reached a record \$81.3 billion in 2000, but dropped sharply to \$69 billion in 2001 because of a shrinking Japanese economy (-0.5% GDP growth in 2001) and the U.S. economic slowdown.

The 106th Congress reacted critically to alleged steel dumping by Japan, and enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured. On March 5, 2002, the Administration imposed additional "safeguards" tariffs on certain steel imports from Japan and a number of other countries under Section 201 of U.S. Trade Law, on grounds that a surge in imports has damaged or has the potential to damage U.S. firms. Japan promptly filed a request with the World Trade Organization (WTO) for consultations with the United States over the decision, the initial step in filing a WTO complaint.

In general, however, the Bush Administration has paid somewhat less attention to the U.S.-Japan trade deficit than did the Clinton Administration, while issuing increasingly pointed requests that Japan deal vigorously with its huge problem of bad bank loans, which are a drag on the economy, and follow-through on structural reforms.

MOST RECENT DEVELOPMENTS

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang that appeared to jumpstart normalization talks between the two countries. The talks have stalled, however, due to two developments since the summit: North Korea's admission to U.S. officials that it has a secret nuclear weapons program based on the process of uranium enrichment; and outrage in Japan at North Korea's admission that it had kidnapped 13 Japanese in the 1970s and 1980s, eight of whom had died. In October, the five surviving abductees traveled to Japan for a visit, but their family members were not allowed to leave North Korea. The Japanese government has not allowed the five to return to the North and has demanded that the family members be allowed to travel to Japan. Prime Minister Koizumi has said normalization talks will not continue unless Pyongyang begins dismantling its uranium program and is more cooperative on the abduction issue. In mid-November, Japan voted with the United States to suspend shipments of heavy fuel oil to North Korea. The oil was being provided under a 1994 U.S.-North Korean agreement in which Pyongyang agreed to halt its nuclear weapons program.

As of early December 2002 the Japanese press reported that the head of the Japanese Defense Agency had decided to send a destroyer equipped with the Aegis air defense system to join the Japanese flotilla in the Indian Ocean, a move that could free up a U.S. Aegis cruiser for deployment to the Persian Gulf, if necessary.

A year-long study by a foreign policy advisory body reported its findings to Prime Minister Koizumi on November 28, 2002. The report is said to stress the need for a more comprehensive effort to deal with an emerging military and regional influence threat from China, for crafting a policy towards the United States which is compatible with and complements U.S. policy but also emphasizes Japan's own foreign and security perspectives and requirements – including Japan's policy towards North Korea.

BACKGROUND AND ANALYSIS

U.S.-Japan Cooperation and Interdependence

(This section was written by Richard Cronin)

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the

alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan's positive and timely response under Prime Minister Koizumi's leadership has fostered closer security cooperation and coordination.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi focused on alliance relations, cooperation against terrorism, and Japan's continuing economic slump, and also addressed a joint session of the Japanese Diet (parliament). The President publicly praised Prime Minister Koizumi's economic reform program, but reportedly spoke bluntly in private about his disappointment with progress.

Economic Policy Differences. The main focus of the Bush Administration's concern regarding the Japanese economy is Tokyo's failure thus far to deal with huge amounts of bad loans which have gravely weakened the banking system, and Japan's current dependence on exports to keep the foundering economy afloat. In mid-September 2002, the Bank of Japan surprised the markets and the public by announcing a plan to use central bank funds to buy up stocks held by banks whose fallen value threatened the bank's balance sheets. At the G-7 meeting in Washington during September 27-28, Japan's finance minister Masajuro Shiokawa seemed himself to be uncertain about what the developments portended, much to the reported annoyance of U.S. Treasury Secretary O'Neill and other American officials.

Subsequent reports cast doubt on how extensive the purchases would be, and under what terms, but the move appeared to portend a significant policy reversal. At the end of the September 2002, shortly after returning from Pyongyang, Koizumi replaced the head of the Financial Services Agency (FSA), which has responsibility for overseeing the resolution of the bad loan problem, with the current Minister of State for Economic and Financial Affairs, Heizo Takenaka, a former academic who has argued for more radical approaches to dealing with the bad loan problem. Koizumi also pledged to "bring an end" to the banking system's non-performing loan problem by 2005.

Japanese banks and their allies in the LDP have strongly resisted Koizumi's plans. Harsh public criticism by the four largest banks is said to be unprecedented, and some senior LDP heavyweights with ties to the banking, insurance, and construction industries have begun a move to replace Koizumi with a more "traditional" figure. During late 2002 observers appeared confused as to whether they should regard moves by Economic and Financial Minister Tanaka to attack the problem more forcefully as indicators of Japanese government concern about further weakness of the financial system or a greater commitment to reform.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The New York attacks especially shocked Japan, which had a large commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. Prime Minister Koizumi strongly condemned the attacks and took a number of steps to protect U.S. personnel and assets in Japan and position his country to support the Bush Administration's anti-terrorist campaign, overcoming resistance not only from the opposition Democratic Party (DP) but also from Old Guard rivals in his own Liberal Democratic Party (LDP) and his pacifist-inclined coalition partner, the New Komeito.

On October 30, 2001, the Upper House of the Japanese Diet (parliament) cleared two bills giving unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to "show the flag" in a non-combat role in support of U.S. and allied military operations in the Indian Ocean area. Legislation valid for a period of two years, and extendable, allows the SDF to provide "rear area" support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. The legislation was implemented in the form of a "Basic Plan" adopted by the Cabinet on November 16, 2001. In an effort to reconcile the terms of Japan's "no-war" constitution with U.S. expectations, Maritime SDF vessels are allowed under the legislation to transport nonlethal supplies to U.S. forces, but not arms and ammunition. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on "collective defense" activities.

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, to provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla consisting of four destroyers, two fleet oilers, and a minesweeper (to ferry supplies) that the Japanese government will send to the region under a "basic plan" that has been formulated to respond to U.S. requests for anti-terrorist assistance. The plan, which is limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia. Due to objections from within the ruling coalition, the Koizumi government decided not to send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States had informally requested.

As of late April 2002, all but two of the deployed ships, an oiler and a destroyer, had returned to Japan. However, the Japanese Cabinet decided on May 17, 2002, to extend the life of the Basic Plan until November 17, 2002. Reportedly, the United States has asked informally for the despatch of an Aegis destroyer so that a U.S. Navy Aegis cruiser can rotate into the Persian Gulf in the event of a conflict with Iraq, but consideration was put on hold after accusations were raised that officials in the Japan Maritime Self Defense Force (JMSF) had informally asked U.S. counterparts to make the request. Opposition and ruling party Diet Members have raised objections previously that establishing a wartime data link between U.S. and Japanese ships would violate the current interpretation of the Constitution that "collective security" are unconstitutional.

In regard to economic assistance measures, on November 14 the Japanese government announced an emergency grant of \$300 million to Pakistan covering refugee relief and other

needs for a period of two years – a quantum increase over the \$40 million initially committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Japan joined the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20, and hosted a donors meeting in Tokyo that began on January 21, 2002, at which it pledged \$500 million for reconstruction aid over the next two years. In May 2002 the Japanese government committed about \$187 million in grant aid for three projects being carried out by non-government organizations (NGO) covering well-drilling in Northern Afghanistan, the rehabilitation of a hospital in Kabul, and mechanical mine clearing around Kabul airport.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China's rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate. Japan's own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan's concerns about China's rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan's past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy. Recently, Tokyo and Beijing also have engaged in trade confrontation.

Sino-Japanese relations took an upturn as a result of Prime Minister Koizumi's visit to Beijing on October 8, 2001. The agenda included a visit by Koizumi to the Marco Polo Bridge, near Beijing, the site of a manufactured incident that triggered Japan's 1937 invasion of China. During the visit Koizumi conveyed the fullest apology for past wrongs ever delivered by a Japanese Prime Minister. Relations remain strained, however, over military issues, including Japanese concern about fast-rising Chinese defense budgets and Chinese objections to the rising profile of the Japanese Self-Defense Forces.

Diverging Korean Peninsula Priorities? Koizumi's September 17, 2002 trip to Pyongyang was a significant departure from Tokyo's recent stance toward North Korea and initially had the potential to put Japan at odds with the Bush Administration's hard-line policy. For years, Japanese policymakers sought to move slowly and deliberately on normalizing relations with North Korea, due to North Korea's launching of a long-range Taepodong Missile over Japan in August 1998, Pyongyang's development and deployment of medium-range Nodong missiles capable of reaching Japan, new revelations about the abductions of Japanese citizens by North Korean agents in the 1970s and 1980s, and incursions by North Korean espionage and drug-running ships into Japanese waters. This cautious approach often created tension between Tokyo and the Clinton Administration, which, along with South Korea's Kim Dae Jung, had been attempting to engage with North Korea. Japanese officials and commentators from across the political spectrum generally welcomed the Bush Administration's policy of using public accusations and warnings to pressure North Korea to allow international inspections of its nuclear facilities and agree to

verifiable curbs to its missile program, including missile exports. (For more on U.S. policy toward North Korea, see IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

At Koizumi's summit with Kim Jong-Il, the two leaders agreed to restart normalization talks and parallel negotiations on security issues. The talks are due to begin in October. Kim issued an unprecedented admission of and apology for North Korea's kidnapping of 14 Japanese in the 1970s and 1980s. The North Korean government also revealed that 8 of these abductees had died. Due to a public outcry, this issue has been, and remains, Japan's top priority in its relations with North Korea. Kim also pledged to unilaterally extend his country's moratorium on missile testing beyond 2003 and issued a vague promise to comply with international agreements related to nuclear issues. Koizumi reportedly raised with Kim a number of other security-related matters that are of particular interest to the United States.

For his part, Koizumi apologized for its colonization of the Korean Peninsula from 1910-1945 and offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion. Significantly, Koizumi has said the economic assistance will not begin until after relations are normalized, a process he has linked to the resolution of the kidnapping issue and the termination of North Korea's nuclear program.

Koizumi's decision to travel to Pyongyang and restart the normalization talks – which reportedly was made before consulting the United States – increased the pressure on the Bush Administration to relaunch U.S.-North Korean security negotiations, which had not been held since the Clinton Administration left office. Following his return to Japan, Prime Minister Koizumi publicly urged President Bush to resume a dialogue with North Korea. In response, the White House sent James Kelly, Assistant Secretary of State for East Asia, to Pyongyang in early October 2002. During that visit, the first high level visit of a Bush Administration, North Korean officials acknowledged in the face of U.S. intelligence data that they had a secret uranium enrichment program, in violation of Pyongyang's commitment under the U.S.-DPRK Agreed Framework of October 1994 to freeze its nuclear program. Reportedly, U.S. officials had conveyed this evidence to senior Japanese officials prior to Koizumi's trip to Pyongyang.

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be “meaningless” without the participation of the United States, the producer of 25% of the world's greenhouse gases.

The Whaling Issue. Members of Congress and Executive branch officials have criticized Japan's decision to continue and expand whaling activities, which it claims are

essential for scientific research and support of traditional lifestyles in several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing its whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed several resolutions asking Japan to curtail its research whaling, in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde's whales, due to concerns that increasing whale populations might threaten fish harvests. Because the sperm whale is on the U.S. list of endangered species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of additional sanctions, which could have been imposed under U.S. law, the United States and Japan convened a panel of experts to resolve the dispute over Japan's scientific research whaling program. This panel met initially in early November 2000, proposing that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. Japan generated additional international criticism in late February 2002 when it notified the IWC that it planned to double its annual take of minke whales in the North Pacific from 50 to 100, and to also take 50 sei whales, which are listed by the United States as an endangered species. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

In May 2002 Japan and the United States clashed at a meeting of the International Whaling Commission in Japan's former whaling port of Shimonoseki. Following a peremptory rejection of a request by Japan to allow the taking of 25 minke whales by what the Japanese described as "aboriginal peoples" in four communities in northern Japan, the Japanese delegation blocked a consensus vote on a U.S.-Russian motion to allow Alaskan Inuit peoples and Indian tribes to continue to kill 61 bowhead and gray whales annually. A revised U.S. plan to allow the taking of 11 bowhead whales for five years by the Inuit failed narrowly to gain the needed three-quarters majority. Japanese officials charged the United States, which has consistently opposed Japanese requests to expand coastal whaling, with reflecting a "double standard," while the leader of the U.S. delegation decried Japan's action as "the most unjust, unkind and unfair vote that was ever taken" by the IWC. In late June 2002, however, Japan reversed its position and offered to support a quota for Alaskan whaling if the United States could schedule an IWC meeting before the end of the year, while also warning that conflict could erupt again if the United States opposed Japanese whaling at the scheduled 2003 meeting.

Claims of Former World War II POWs and Civilian Internees. Congress has also indicated intense interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company

and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107th Congress seek to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). (See Legislation section, below.) The conference report explains that the provision was dropped because the adamant opposition of the President would have jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable "parliamentary tactic."

On July 10, 2002, lawyers for the State Department argued in a California appeals court that a 1999 California law which allows victims of World War II forced labor to sue Japanese multinational companies that operate in California should be struck down on grounds that it interfered with U.S. foreign policy. The U.S. government has long maintained that the terms of the 1951 Peace Treaty with Japan bars such claims. (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Security Issues

(This section was written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a

resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

On July 29, 2002, the Japanese government met with representatives of the Okinawa prefectural government and concerned municipalities and reached consensus on details of a planned dual civil-military facility to replace the Futenma Marine Air Station. The Japanese government has determined that the facility would be constructed offshore by reclaiming land on coral reefs near Camp Schwab, an existing Marine base, and would be 2,500 meters in length. Left unresolved was the demand by the Okinawa prefectural government and local communities that the use of the base by U.S. forces be restricted to a period of 15 years, a limitation that, as noted above, the U.S. government deems unacceptable.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

Revised Defense Cooperation Guidelines. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S.

and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in “situations in areas surrounding Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan’s current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan’s role in implementing the 1997 defense guidelines, including crises in “areas surrounding Japan.”

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea’s missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. Japan also expressed concern at the decision of Secretary of Defense Donald Rumsfeld to eliminate the distinction between NMD and Theater Missile Defense (TMD), but the Japanese Defense Agency nonetheless has continued to participate in the joint research program. The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control systems designed for the U.S. Navy’s Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system. Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability, and have increased funding for expanded participation in the R&D effort. The defense agency also has budgeted for two new destroyers equipped with the Aegis radar and fire control system (the Japanese navy has four at present), including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL31337. *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Economic Issues

(This section was written by William Cooper)

Despite Japan's long economic slump, trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5% but *declined* 0.5% in 2001. During the first quarter 2002, the GDP remained flat but grew at 0.6% (preliminary data) in the second quarter, largely because of growth in net exports. Independent analysts remain skeptical of the long-term prospects for the Japanese economy given other indicators showing weakness including declining business investment and an unemployment rate of 5.4% in September 2002. (For more information on Japan's economic problems, see CRS Report RL30176, *Japan's "Economic Miracle": What Happened?.*)

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan in June 2001. The plan included not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-term. However, the Koizumi government later appeared to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking reform also remains a problem. On March 29, 2002, the Koizumi government announced a package of new deregulation reforms with an emphasis the social sphere— medical care,

education, labor and public services. The reforms are to be implemented over a three-year period. In an unprecedented move, the Bank of Japan announced on September 18 that it would buy shares of stocks held by Japanese commercial banks in an effort to shore up the latter's balance sheets and to halt the slide in the Japanese stock market. Critics charge that the move reduces the banks' incentive to deal with non-performing loans and to undertake fundamental restructuring.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy, and the deficit continues to shrink in 2002.

Table 1. U.S. Trade with Japan, 1996-2002
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0
2001*	44.5	95.7	-51.2
2002*	38.8	88.8	-50.0

*Jan.-Sept. data.

Source: U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s. basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of "serious injury" to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. On March 5, President Bush announced that the government would impose higher tariffs on imports of selected steel products. On March 6, the Japanese government called the decision regrettable. On March 20, Prime Minister Koizumi's government requested formal consultations with the United States through the WTO, stating that the U.S. action was not in compliance with WTO rules and that the problems of the U.S. steel industry were due to

its lack of international competitiveness and not imports. The Japanese government threatened to impose retaliatory tariffs on U.S. steel exports worth \$5 million by June 18. However, on June 13, the government announced it would delay action. On August 23 the Japanese Foreign Trade Ministry announced that it would not retaliate against U.S. section 201 measures against on steel imports, defusing what was potentially a very contentious issue in U.S.-Japan trade relations. Japanese Foreign Trade Minister Takeo Hiranuma pointed to exclusions of some 40% of Japanese steel exports to the United States from the original section 201 measure as the primary reason for pulling back on retaliation.

Nevertheless, Japan and several other steel exporting countries are pursuing a case in the WTO's Dispute Settlement Body against the U.S. action. The WTO dispute panel that was established to hear the case held its first hearing on October 29, a three-day meeting. Japan, the EU, Brazil, China, New Zealand, Norway, South Korea, and Switzerland have argued that the United States did not follow WTO rules in imposing the safeguard actions, a conclusion the United States strongly denies.

The United States and Japan have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries, such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

Japanese Political Developments

(This section was written by Mark Manyin)

Current Situation. In the weeks after his unconventional rise to power in April 2001, the extraordinary popularity of Prime Minister Junichiro Koizumi helped propel the ruling coalition dominated by the Liberal Democratic Party (LDP) to significant victories in two parliamentary elections. The key to Koizumi's popularity was his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. As Prime Minister, Koizumi has attempted to seize the machinery of government away from the factions that have long dominated the LDP. Lacking a strong base within the LDP, Koizumi's popularity is one of the few weapons he wields against the "old guard" that are strongholds of the "old economy" interests most threatened by Koizumi's agenda. To date, these groups generally have been successful in watering down most of his economic reforms. Another factor that has helped keep Koizumi in power is the absence of any politicians in the LDP or in Japan's opposition parties who have the political strength to replace Koizumi in the near future.

For most of 2001, Koizumi's public approval rating remained well over the 70% level despite Japan's worsening economic situation. Koizumi's popularity plummeted below the 40% level in the spring and summer of 2002, however, when a series of events appeared to indicate that he had bowed to the wishes of the LDP's powerful old guard factions. Koizumi's September 17, 2002 summit with North Korean leader Kim Jong-il boosted his approval ratings back over the 60% level, a development that gave the Prime Minister a new burst of political adrenaline. Two weeks after the summit, he unveiled a new initiative to "bring an end" to the banking system's non-performing loan problem by 2005 and carried out a widely anticipated cabinet reshuffle that included the appointment of reformer Heizo Takenaka, a university professor, as Financial Services Minister. Koizumi's popularity

ratings have slipped in recent weeks due to setbacks in his economic reform initiatives and in talks with North Korea.

In general, Japan's political peculiarities constrain U.S. influence over Japanese policy. Most importantly, the relative weakness of the Japanese prime minister and cabinet often make it difficult for Japanese leaders to reach and then deliver on controversial agreements with foreign countries. Presently, U.S. options are further limited by the widely-held perception that Koizumi represents the best hope for pushing through economic reforms the U.S. has sought. This belief has led the Bush Administration generally to avoid criticizing Koizumi publicly, for fear of diminishing his political effectiveness.

Background - The Political System's Inertia. Despite over a decade of economic stagnation, or negative growth, Japan's political system – indeed, many of Japan's economic policies – have remained fundamentally unchanged. What accounts for this striking inertia? Three features of Japan's political system give vested interests an inordinate amount of power in Japan: the extreme compartmentalization of policy-making; the factional divisions of the Liberal Democratic Party; and the weakness of the opposition parties. Many of Koizumi's most far-reaching reform proposals actually are attempts to alter the first and second of these characteristics.

The Compartmentalization of Policy-Making. To a striking degree, Japan's policymaking process tends to be heavily compartmentalized. Policy debates typically are confined to sector-specific, self-contained policy arenas that are defined by the jurisdictional boundaries of a specific ministry. Each policy community stretches vertically between bureaucrats, LDP policy experts, interest groups, and academic experts. Unlike in most industrialized societies, each policy arena in Japan is so self-contained that cross-sectoral, horizontal coalitions among interest groups rarely form. One reason for this is that bureaucrats are paramount in most of Japan's policy compartments. Only in matters involving highly politicized industries such as agriculture and security policy have politicians and interest groups become significant players in the policymaking process. Even in these areas, responsibility for carving out the details of policy still rests with the bureaucrats, in part because Japanese politicians often only have a handful of staffers to assist them.

Furthermore, the LDP's policymaking organ, the Policy Affairs Research Council (PARC), itself is segmented into specialist caucuses (often called "tribes" or *zoku*), so that competing interests – such as protectionist farmers and export industries – rarely face off inside the LDP. For this reason, the LDP often finds it difficult to make trade-offs among its various constituencies. The result is often paralysis or incremental changes at the margins of policy. Koizumi has attempted – thus far with limited success – to change this by centralizing more power in the Prime Minister's office, at the expense of the PARC and the bureaucracies.

The Factional Nature of the Liberal Democratic Party. The LDP has been the dominant political force in Japan since its formation in 1955. It is not a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. Because the LDP president (who *de facto* becomes Japan's prime

minister) is not the true leader of the party, he often lacks the power to resolve divisive intra-party disputes or even to set the party's agenda.

For over two decades, the LDP's dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto, who in April 2001 was surprisingly defeated by Koizumi in the selection for LDP President due to an unprecedented revolt by reformist party members. Coinciding with his selection as LDP President, Koizumi bucked party tradition first by resigning from his own faction and then by giving the anti-reformist Hashimoto group only one Cabinet post. Koizumi similarly disregarded the Hashimoto and other anti-reformist factions in his September 30, 2002 cabinet reshuffle.

One result of the LDP's opaque, top-down decision-making structure is that it has been slow to adapt to changes in Japanese society. The LDP has coddled many of Japan's declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party's political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP's top leaders have been implicated in various kickback scandals. Compounding the problem is that Japan's electoral districting system overweights rural voters compared with more reformist-minded urbanites; each rural vote is worth an estimated 2 urban votes.

Over the past decade, a bloc of independent voters – who now constitute a majority of the voting population – has arisen opposing the LDP's "business as usual" political system. Urban, younger, and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform (although when pressed, many of these same voters oppose specific structural – and potentially painful – economic reforms). Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The rise of unaffiliated voters helps explain the LDP's steadily declining strength in the Diet (the Japanese parliament) over the past decade. Since it was briefly ousted from power in 1993 and 1994, the LDP's lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass, making radical policies that much more difficult to adopt.

The Weakness of the Opposition Democratic Party of Japan (DPJ).

Koizumi's recent resurgence has further weakened the DPJ, Japan's largest opposition party. The DPJ, which describes itself as "centrist," is led by Yukio Hatoyama, a former LDP politician whom most analysts consider to be a standard bearer lacking the charisma and outspokenness sought by many Japanese independent voters. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent

alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20%, and have fallen into the single-digit levels in recent weeks. Some commentators have speculated that Koizumi may attempt to realign the Japanese political scene by bolting from the LDP and allying with the DPJ's more conservative wing, led by Hatoyama. In September 2002, Hatoyama was narrowly reelected party president, barely beating left-of-center DPJ Secretary General Naoto Kan, who resigned his position following the vote. The campaign highlighted the inter-generational rift between the party's older and younger members.

U.S. Policy Approaches

(This section was written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress, the Executive branch, and the wider public broadly agree across party, ideological, and interest group lines on the need for Japan to fix its current economic problems and further open its markets, while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

1) Emphasize Alliance Cooperation. The Bush Administration has favored emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers were given highest priority. This approach seemed validated by Japan's cooperative response to the September 11, 2001 terrorist attacks, but its continuing economic problems have limited its wider international role. Proponents of this approach tend to see threats to regional stability such as a rising China and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

2) Emphasize U.S. Trade and Economic Objectives. A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of putting more pressure on Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy. This perspective would rely on pragmatism and mutual national self interest to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full

panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate.

LEGISLATION

H.Amdt. 188 (A022) (Rohrabacker)

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law on November 28 (P.L. 107-77).

H.R. 2835 (Cox)

To authorize the payment of compensation to members of the Armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the House Committees on Veterans; Ways and Means; and Judiciary, October 31, 2001.

S.Amdt. 1538

Amends H.R. 2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by yea-nay vote of 34-58; recorded vote number: 276. Adopted by voice vote, September 10, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15. Signed into law on November 28, 2001 (P.L. 107-77).

S. 1272 (Hatch)

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001. Referred to the Committee on the Judiciary by unanimous consent, June 18, 2002.

Report for Congress

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U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan

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U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan

Summary

Of the approximately 130,000 American prisoners of war (POWs) in World War II (WWII), 27,000 or more were held by Japan. Of the approximately 19,000 American civilian internees held in WWII, close to 14,000 were captured and interned by Japan. After the conclusion of WWII, Congress passed the War Claims Act of 1948, which created a War Claims Commission (WCC) to adjudicate claims and pay out small lump-sum compensation payments from a War Claims Fund consisting of seized Japanese, German, and other Axis assets. Payments to POWs held by either Germany or Japan were at the rate of \$1 to \$2.50 per day of imprisonment. The WCC also paid civilian internees of Japan \$60 for each month of internment, and civilians were also eligible for compensation for disability or death. The War Claims Act of 1948 did not authorize compensation for civilian internees held by Germany.

Since payments were already being made to U.S. POWs out of Japanese assets via the War Claims Act, POWs of other Allied countries were given first claim on payments from Japanese assets situated in neutral countries or countries with which the Allied Powers were at war, as specified in the Multilateral Peace Treaty with Japan of 1951. In the decades since this initial compensation, POW and internee groups have tried several routes to obtain more compensation for their internment by Japan. Groups have tried and failed to get legislation passed, to have the U.S. Court of Claims hear their claims, to get Japan to pay reparations of about \$20,000 to each legitimate claimant, or to have the United States compensate them.

In 1995 POW and civilian internee groups from several countries filed suits in the Japanese court system, seeking a net payment of \$20,000 for each POW/internee. However, Japanese courts ruled out compensation, pointing to Article 14 of the Multilateral Peace Treaty, in which the United States waived any further claims by U.S. citizens against Japan. In late 1999, in a new tactic, POWs/internees who claim to have been used as forced laborers filed suit in California courts against several major Japanese companies seeking reparations: so far all suits have been dismissed. On June 28, 2000, the Senate Judiciary Committee held a hearing on POW survivors of the Bataan Death March and their claims against Japanese companies they allege used them as slave laborers. Although attempts to give POWs additional U.S. compensation failed in the 106th Congress, legislation was passed to find, declassify, and release any Japanese records that the United States might have relating to Japanese WWII war crimes. A sense of Congress resolution also passed that asked the Administration to facilitate discussions between POWs and Japanese companies over POW slave labor claims. In the 107th Congress, several pieces of legislation were introduced, including one to give a tax-free gratuity of \$20,000 to Armed Forces personnel and civilian employees of the federal government who were forced to perform slave labor by Japan in WWII; none became law. As the number of living POWs and civilian internees dwindles, those that survive continue to press the issue. This report will be updated as events warrant.

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U.S. Prisoners of War and Civilian American Citizens Captured and Interned by the Japanese in World War II: The Issue of Compensation by Japan

World War II—U.S. Prisoners of War and Civilian Internees

World War II (WWII) was fought during 1939-1945 in all corners of the globe by the Axis powers (Germany, Japan, Italy, and some smaller states) against the Allies (United States, United Kingdom, Free French, Nationalist China, the Soviet Union, and other allies). Major air, land, and sea battles took place on and around the European landmass, the Mediterranean, Asia, North Africa, the Far East, the Atlantic, the Pacific, and elsewhere. Estimates of people and resources involved in WWII vary widely. According to *Louis L. Snyder's Historical Guide to World War II*, military forces at their peaks are estimated to have ranged from a high estimate of 68.8 million combatants to a low estimate of 66.6 million combatants. According to this same source, estimated worldwide deaths, both military and civilian, were somewhere between 24.4 million and 30 million.¹ *The World War Two Almanac, 1931-1945*, gives an estimate of 60 million combatants and worldwide deaths as being more than 53 million.² Finally, the essay on WWII deaths in *The Historical Encyclopedia of World War II* estimates that somewhere between 45 and 50 million people were killed by the direct effects of WWII.³

For the United States, WWII formally started when Japan's attack on Pearl Harbor on December 7, 1941, triggered President Franklin D. Roosevelt's December 8 request that "... Congress declare that since the unprovoked and dastardly attack by Japan on Sunday December 7, 1941, a state of war has existed between the United States and the Japanese Empire."⁴ This led to a declaration of war by Congress on

¹ Louis L. Snyder, *Louis L. Snyder's Historical Guide to World War II* (Westport, CT: Greenwood, 1982), p. 126.

² "World War Two: The Road to Victory," special pull-out section, *Washington Times*, Aug. 14, 1995, p. 9, chart, "World War II by the Numbers."

Source for statistics: Robert Goralski, *World War Two Almanac, 1931-1945: A Political and Military Record* (New York: Bonanza Books, 1981).

³ Marcel Bradot et al., eds., *The Historical Encyclopedia of World War II* (New York: Facts on File, 1980), pp. 131-133.

⁴ Franklin D. Roosevelt, *The Public Papers and Addresses of Franklin D. Roosevelt*, comp. (continued...)

the same day.⁵ A total of 16.1 million U.S. troops served in WWII, and these troops suffered 291,557 battle deaths, 113,842 other deaths (due to disease, accident, etc.), and 671,846 wounds which were not mortal.⁶ In addition to these casualties, according to some estimates (discussed below), some 130,000 U.S. troops were captured and became Prisoners of War (POWs).⁷ Germany held almost 94,000 U.S. POWs, and Japan held over 27,000.⁸ Prior to the outbreak of WWII, many American civilians were working and living abroad in areas which were to become combat areas as WWII progressed. According to one report, approximately 4,700 U.S. citizens were captured and interned by Germany, and almost 14,000 U.S. citizens were captured and interned by Japan.⁹

Counting WWII Prisoners of War and Internees

The immense problems of World War II record-keeping in the heat of battle, how *POWs* and *internees* are defined, and sometimes unknowable individual circumstances, make an authoritative determination of the precise number of POWs and internees held by Germany and Japan in WWII virtually impossible. In the case of POWs, Charles A. Stenger, formerly with the Veterans Administration (VA), developed a set of figures revised annually since 1976 for POWs and an estimate for current numbers of surviving POWs for the Department of Veterans Affairs Advisory Committee on Former Prisoners of War. According to Dr. Stenger, these figures were compiled in cooperation with the Department of Defense (DOD), the National Academy of Sciences, and the National Archives. They are recognized and used by the Department of Veterans Affairs (VA) and other government agencies.

⁴ (...continued)

Samuel I. Rosenman (New York: Harper, 1950, 1941 volume), pp. 514-516.

⁵ P.L. 328, 55 Stat 795 (1941).

⁶ Department of Defense, Office of the Secretary of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports, *Department of Defense Selected Manpower Statistics*, table 2-23, "Principal Wars in Which the United States Participated: U.S. Military Personnel Serving and Casualties." This publication is now only available online, and this table can be found on the DIOR Web site at [<http://web.1whs.osd.mil/mmid/m01/SMS223R.HTM>].

⁷ CRS Issue Brief IB92101, *POWs and MIAs: Status and Accounting Issues*.

⁸ Charles A. Stenger, *American Prisoners of War in WWI, WWII, Korea, Vietnam, Persian Gulf, Somalia, Bosnia, Kosovo and Afghanistan*, Statistical Data Concerning Numbers Captured, Repatriated, and Still Alive as of January 1, 2002, prepared for the DVA Advisory Committee on Former Prisoners of War, Mental Health Strategic Group, VHA, DVA, American Ex-Prisoners of War Association, 2002, unpublished. Stenger sent the author a copy in December 2001.

⁹ See statistics on WWII POWs and internees from the Center for Internee Rights, Inc., an advocacy group, at its Web site [<http://www.expows.com>].

Dr. Stenger lists 27,465 POWs in the Pacific, of whom 11,107 died while in detention. He estimates that 4,920 of the survivors are alive as of January 1, 2002.¹⁰

According to Dr. Stenger, figures for civilian internees are less solid. He lists 7,300 American civilians as having been interned by Japan, of whom he estimates 1,969 are alive as of January 1, 2002. He also cites an additional 13,000 Amerasians holding American citizenship who hid during this period, but who were never interned; he estimates that 1,528 of those 13,000 Amerasians are still alive as of January 1, 2002.¹¹ The Office of the Army's Provost Marshal General, Prisoner of War Division, listed 13,979 American civilian internees (including War, Navy, and Merchant Marine personnel) in its compilation of internees "Formerly Detained by the Japanese Government."¹² The Center for Internee Rights, Inc. (CFIR), an internee advocacy group, calculates that there were 13,996 civilian internees held by Japan, of which the Center calculated 1,497 to be alive as of January 1, 2000.¹³ According to a January 4, 2002 letter to the editor of the *New York Times* by Linda Goetz Holmes (see information about her at footnote 41), there are approximately 5,300 surviving U.S. POWs who were held by Japan.¹⁴

War Claims Commission

In the United States, payments to WWII POWs and internees were made by the War Claims Commission (WCC), which was established by the War Claims Act of 1948 (50 U.S.C. App. 2001 et seq.). Under Section 12 of the War Claims Act, German and Japanese assets seized by the United States after December 17, 1941, under the Trading with the Enemy Act of October 6, 1917, (40 Stat. 411) as amended, were to be liquidated and placed in a War Claims Fund created on the books of the U.S. Treasury. According to 1959 testimony by the head of the Foreign Claims Settlement Commission, the total amount of these liquidated assets amounted to \$228,750,000.¹⁵ The 1952 amendments to the War Claims Act (P.L. 303, 66 Stat.

¹⁰ Ibid.

¹¹ Stenger, *American Prisoners of War in WWI, WWII, Korea* Plus several telephone discussions with Dr. Stenger in 1999-2000.

¹² Office of the [Army] Provost Marshal General, Prisoner of War Division, *American Civilian Internees Formerly Detained by the Japanese Government (including War, Navy, and Merchant Marine Personnel)*, 7 December 1941-14 August 1945, CFN-127. The author has the title page and first and last pages of the tally contained in this three-volume, 350+-page document. The last page of this tally has a handwritten correction to the total number of internees changing the number to 13,979 from 13,97?.

¹³ Statistics on WWII POWs and Internees from the Center for Internee Rights, Inc.

¹⁴ Linda Goetz Holmes, letter to the Editor, *New York Times*, Jan. 4, 2002, p. A20.

¹⁵ U.S. Congress, House, Committee on Interstate and Foreign Commerce, Subcommittee on Commerce and Finance, *War Claims and Enemy Property Legislation*, hearings, 86th Cong., 1st sess. (Washington: GPO, 1959).

The head of the Foreign Claims Settlement Commission, Whitney Gilliland, stated in the hearing that the total amount of "... all sums covered [transferred] into the Treasury (continued...)

47, 49 [1952]), designated April 9, 1953, as the last day for the Commission to receive claims relative to WWII, and WCC programs were completed on March 31, 1955.

Foreign Claims Settlement Commission

The War Claims Commission was combined with the International Claims Commission to form the Foreign Claims Settlement Commission. Subsequently, the Foreign Claims Settlement Commission was made a part of the Department of Justice.¹⁶ The Commission took over the remaining duties of the WCC, and has administered WWII property claims programs under Title II of the War Claims Act and claims programs related to subsequent conflicts in which the United States has been involved (Korean Conflict, Vietnam War). It has also handled U.S. property claims against a number of other countries from wars in the 20th century, and is involved in the newly created Holocaust Claims Program recently agreed to by the United States and Germany.¹⁷

Prisoners of War

A *prisoner of war* is defined in the original War Claims Act as “... any regularly appointed, enrolled, enlisted or inducted member of the military or naval forces of the United States who was held as a prisoner of war for any period subsequent to December 7, 1941, by any government of any nation with which the United States has been at war subsequent to such date.” Thus, POWs captured by any of the Axis Powers—Germany, Italy, or Japan—were eligible to apply for compensation.

¹⁵ (...continued)

pursuant to Section 39 of the Trading With the Enemy Act, that is, the net proceeds of the liquidation of vested World War II German and Japanese assets by the Office of Alien Property in the Department of Justice ... totaled \$228,750,000 ... and there was a balance of a little over \$500,000 remaining” (pp. 3-4).

The December 31, 1957 Report of the Commission stated that of an estimated \$225 million in vested assets of Germany and Japan, approximately \$171 million were of German origin and \$54 million were of Japanese origin. Claims against Italy were paid from a \$5 million fund provided by Italy. The report also stated that awards paid for POW claims against Japan were approximately \$71.6 million and that awards for civilian internees’ claims against Japan were approximately \$18.1 million, while awards for U.S. POW claims against Germany totaled approximately \$51.78 million. Foreign Claims Settlement Commission. *Seventh Semiannual Report to Congress for the Period Ending December 31, 1957* (Washington: GPO, 1958).

¹⁶ Interview with David E. Bradley, Chief Counsel, Foreign Claims Settlement Commission, Jan. 24, 2000. Reorganization Plan No. 1 of 1954. 68 Stat. 1279; 19 *Federal Register* 3985, July 1, 1954.

¹⁷ Information on this program can be found at the Department of Justice’s Foreign Claims Settlement Commission Web site at [<http://www.usdoj.gov/fcsc/>].

The preceding definition apparently accounts for the denial, cited in a footnote in the Foreign Claims Settlement Commission's 2000 *Annual Report*, of many thousands of claims for compensation by residents of U.S. territories and possessions occupied by enemy forces. This was because the claimants, many of them Filipinos, were not officially listed as members of duly recognized units of the U.S. Armed Forces during WWII.¹⁸

Internees

Under the War Claims Act, compensation of civilians was to go only to "civilian American citizens," i.e., "... any person who, being then a citizen of the United States, was captured by the Imperial Japanese government on or after December 7, 1941, at Midway, Guam, Wake Island, the Philippine Islands or any Territory or possession of the United States attacked or invaded by such government, or ... while in transit to or from ... or who went into hiding at any such place." Thus civilian internees held by Japan were able to file for compensation but not civilian internees captured by the Germans. A later amendment¹⁹ to the War Claims Act extended coverage to certain Guamanians who were captured and interned by Japan.

American Civilians in Europe and Asia vs. Those in the Philippines

In the 1948 hearings on the War Claims Act, a distinction was made between those American civilians living in Europe and Asia who State Department testimony indicated had been warned several times to leave Europe and Asia, and those American citizens in the Philippines and vicinity who were not warned.²⁰ Only "civilian American citizens" who were in hiding, in transit in the area of the Philippines, or captured and interned by the Japanese were entitled to apply for compensation by this legislation.²¹

¹⁸ U.S. Department of Justice, Foreign Claims Settlement Commission, *2000 Annual Report* (Washington: GPO, 2000), p. 41. Footnote 1 to Table of Completed Programs, War Claims Act of 1948. This report is available online at [<http://usdoj.gov/fcsc/annrep00.htm>].

¹⁹ Foreign Claims Settlement Commission, *Decisions and Annotations*, p. 666. In 1962, P.L. 87-617 amended the War Claims Act to add detention benefits for Guamanians captured on Wake Island by Japan.

²⁰ Robert R. Wildon, "Recent Developments in the Treatment of Civilian Alien Enemies," *American Journal of International Law*, vol. 38, issue 3 (July 1944), pp. 397-398. According to Wildon, there was an exchange of civilian prisoners with Japan early in the war. The ship *SS Gripsholm* repatriated over 1,300 Americans, officials and non-officials, from the Far East to the United States in July 1942. Another exchange of approximately 1,240 U.S. nationals and 260 nationals of other American republics and Canada was concluded in October 1943.

²¹ U.S. House, Committee on Interstate and Foreign Commerce, *Amending the Trading with the Enemy Act; Creating a Commission to Make Inquiry and Report with Respect to War* (continued...)

Peace Treaties with Japan and Germany

The United States concluded a treaty ending the state of war between the United States and Japan in 1951 that included POW compensation provisions. In addition, the War Claims Act (WCA) dealt with U.S. POWs held by all Axis powers, as well as civilian American internees of Japan. Since the United States did not conclude a peace treaty with Germany, only recently has compensation for some U.S. civilian internees of Germany been awarded.²²

²¹ (...continued)

Claims; and Providing Relief for Internees in Certain Cases, report to accompany H.R. 4044, 80th Cong., 1st sess., H.Rept. 976 (Washington: GPO, 1947).

According to this report, a distinction was made between American civilians who were in Europe and Asia and who had been warned by the State Department several times before the war to leave and who had several boats sent to Europe to return them to the United States and American civilians who were in the Philippines and other American territories and possessions who had not been warned to leave as a matter of national policy. See, for instance, letter of the former High Commissioner to the Philippine Islands on pp. 6-7, and samples of State Department warning messages in the appendix (pp. 21-23).

²² Despite meetings beginning with the Potsdam Conference, July 17-Aug. 2, 1945, and culminating in the 2 plus 4 agreement of Sept. 1990, no peace treaty officially ending the war with Germany was ever signed. (A treaty might have dealt with the issue of compensation of U.S. civilian internees.)

The first instance of internee compensation began with the Hugo Princz decision. Hugo Princz was an American citizen living with his family in Slovakia. When the United States declared war against Germany, Princz and the seven members of his family were turned over to the Nazis. He spent 3 years in Auschwitz and was the only member of his immediate family to survive. After the war, he waged a 40-year battle through the courts and Congress for reparations from Germany. Finally, in 1995, Princz and 10 other American survivors shared in a \$2.1 million settlement from Germany. Subsequently, an agreement between the U.S. government and that of Germany resulted in the establishment of the Holocaust Claims Program.

In 1997, the Foreign Claims Settlement Commission ruled that only those Americans who suffered in a concentration camp or subcamp, or were made to participate in a forced labor march, were eligible for the Holocaust Claims Program. As a result of an agreement between the United States and Germany which is part of the Holocaust Claims Program, the U.S. Treasury received \$18.5 million from Germany, which, reportedly, it will pay out to 235 eligible survivors in lump sum payments of \$30,000 to \$250,000. According to an article from the Jewish Telegraphic Agency, until the 1995 Hugo Princz decision, no individuals imprisoned in Nazi camps who were U.S. citizens at the time of the war had been compensated by Germany.

Source: Peter Ephross, "U.S. Holocaust Survivors Scheduled to Receive German Reparation Funds," *Jewish Telegraphic Agency*, June 22, 1999 (online). Available through NEXIS Library: NEWS File: CURNWS.

According to David E. Bradley, Chief Counsel of the Foreign Claims Settlement Commission, all but one of these claimants participating in the Holocaust Claims Program have been paid. Phone discussion with Mr. Bradley, June 24, 2000.

War Claims Compensation

Under the War Claims Act of 1948, POWs held “... by any government of any nation with which the United States has been at war subsequent to [December 7, 1941]” were paid a lump sum payment based on \$1 per day of imprisonment in which a POW was able to prove under Section 6(b) of the law that “... the enemy government or its agents failed to furnish him such quantity or quality of food (as he was entitled to as a prisoner of war under the Geneva Convention on Treatment of Prisoners of War of July 27, 1929).”²³ The 1952 amendments added Section 6(d) that provided for payment of an additional \$1.50 per day if a POW were able to prove that he was subjected to “inhumane treatment” or forced to perform hard labor, thus bringing total aggregate payments to a maximum of \$2.50 per day of imprisonment.²⁴ Detention benefits could also be paid to members of a deceased POW’s immediate family. Claims for disability or ongoing health problems due to being a POW of the Axis powers were subsequently handled by the Veterans Administration.²⁵

Adult “civilian American citizens” who were interned by Japan or in hiding on Midway, Guam, Wake, the Philippine islands, or in territories or possessions of the United States were paid at the rate of \$60 per month of detention (children under 18 were paid \$25/month). Civilian disability payments of \$25 per week (which was calculated as two-thirds of a weekly pay of \$37.50) had a lifetime cap of \$7,500. A similar cap of \$7,500 applied to death benefits, which were calculated based on the individual situation for each applicant. According to statute, these amounts were arrived at by using pay computations based on the then current compensation tables for longshoremen.²⁶ Funeral expenses of up to \$3,000 were also available. As with POW payments, payments could be made to a deceased internee’s immediate family. Continuing medical payments were made thereafter by the Department of Labor’s Office of Workers Compensation, with no cap for those who could show that their illnesses were caused by being an internee; 42 internees were receiving payments from the Office of Workers Compensation at the Department of Labor as of June 30, 2000.²⁷ The Foreign Claims Settlement Commission, in its latest annual report to

²³ Leon Friedman, ed., *The Law of War: A Documentary History* (New York: Random House, 1972), vol. 2, pp. 488-522.

²⁴ *An Act to Amend Sections 6 and 7 of the War Claims Act of 1948*, chap. 167, 66 Stat. 47.

²⁵ The VA has a list of presumptive conditions related to being a POW that has expanded over the years since WWII. See the VA Fact Sheet, “VA Benefits for Former Prisoners of War,” at its Web site [<http://www.va.gov/pressrel/98fspow.htm>].

See also [<http://www.vba.va.gov/ro/central/indy/pow/POWPrsmp.htm>] for more detail on presumptive disabilities.

²⁶ War Claims Act of 1948, Section 5 (f)(1).

²⁷ Phone discussions with Roberta Mosier, Office of Workers Compensation Programs, Department of Labor, June 2, 1999, Aug. 9, 1999, and June 22, 2000. According to a June 13, 2001 phone discussion with Ralph Slighter of the same office, for the time period July 1, 1999-June 30, 2000, the DOL paid out \$216,095 in medical claims to 42 civilian internees from WWII. According to a handout from the Office of Workers’ Compensation, titled “War Claims Act of 1948,” “Unlike the department of Veteran’s Affairs, which accepts a
(continued...)

Congress (2000), listed payments that had been made by the War Claims Commission and subsequently the Foreign Claims Settlement Commission for WWII POWs and internees or their immediate families as the following:

- ! POWs @\$1 inadequate food rate [filing period 1/30/50-3/31/52]
286,315 claims, 179,725 awards = \$49,935,899²⁸
- ! POWs @ additional \$1.50 forced labor rate [filing period 4/9/52-8/1/54]
254,228 claims, 178,900 awards = \$73,492,926
- ! Civilian internees interned or in hiding @\$60 rate [filing period 4/9/52-8/1/54]
23,000 claims, 9,260 awards = \$13,679,329²⁹
- ! American POWs enlisted in Allied forces [completed 8/31/56]
266 claims, 206 awards = \$335,836³⁰
- ! American merchant seamen captured and interned by Germany or Japan [completed 8/31/56]
385 claims, 171 awards = \$333,594³¹
- ! Interned civilian contractor employees @\$60 rate [filing period 8/31/54-8/31/55]
2,968 claims, 2,222 awards = \$4,082,086³²

²⁷ (...continued)

number of conditions as presumptive in ex-POWs, OWCP accepts only periodontitis on a presumptive basis.”

²⁸ According to the footnote on p. 41 in the *2000 Annual Report* of the Foreign Claims Settlement Commission, the high number of denials was due to many thousands of claims by residents of U.S. territories and possessions occupied by enemy forces who were not officially listed as members of duly recognized units of the U.S. Armed Forces during WWII.

²⁹ Foreign Claims Settlement Commission, *2000 Annual Report*, p. 40-41. Under the War Claims Act of 1948, claims were also paid to reimburse U.S. affiliated and non-U.S. affiliated religious organizations and personnel who had aided U.S. armed forces and civilians in the Philippines, as well as to pay them for damage to educational and non-religious facilities in the Philippines, and for sequestration of U.S. citizen, military, and business bank accounts in the Philippines.

In 1962, P.L. 87-617 amended the War Claims Act to add detention benefits for Guamanians captured on Wake Island by the Japanese. According to the chart in the Foreign Claims Settlement Commission *2000 Annual Report* (pp. 36-41), of the more than \$517 million paid out for WWII claims under the War Claims Act, almost \$335 million was paid out under Title II, for war damage to property in certain Eastern European countries, territories attacked or occupied by the Japanese, and damage to ships, losses to insurers, and by passengers of ships, that was authorized by other 1962 amendments to the War Claims Act contained in P.L. 87-846.

³⁰ U.S. Foreign Claims Settlement Commission, *Decisions and Annotations* (Washington: GPO, 1968), p. 665. Compensation was authorized by P.L. 83-744, a 1954 amendment to the War Claims Act of 1948.

³¹ Foreign Claims Settlement Commission, *2000 Annual Report*, pp. 40-41.

³² Committee on Interstate and Foreign Commerce, *War Claims and Enemy Property* (continued...)

! Guamanians captured by the Japanese on Wake Island in WWII
 detention benefits [program completed 12/31/63]
 35 claims, 35 awards = \$91,782³³

According to the Chief Counsel for the Foreign Claims Settlement Commission, there were approximately 39,000 claimants in the category of POWs held by Japan, or their survivors, and approximately 81,200 claimants in the category of POWs held by Germany or their survivors.³⁴

Although the WCC believed that it had done a good job of publicizing its program and of contacting potential claimants, POW/internee groups, such as the National American Ex-POW Association, Inc. and the Center for Internee Rights, Inc. believed that insufficient efforts were made to find potential claimants.³⁵ These groups also contended that because many of the effects of internment might not show up until many years after the fact, the cutoff dates for filing claims were too short.³⁶

Treaty of Peace with Japan

The Multilateral Treaty of Peace with Japan—3 UST 3169 (United States Treaties and Other International Agreements), TIAS 2490 (Treaties and Other International Acts Series), September 8, 1951—which officially ended the state of war between Japan and the Allies, stated in Chapter V (dealing with issues relating to claims and property), Article 14(a):

It is recognized that Japan should pay reparations to the Allied Powers for the damage and suffering caused by it during the war. Nevertheless it is also

³² (...continued)

Legislation, p. 4. According to testimony by Whitney Gilliland, these claimants were not covered by the original Act.

³³ Foreign Claims Settlement Commission, *Decisions and Annotations*, p. 666.

³⁴ Fax from David Bradley, Chief Counsel, Foreign Claims Settlement Commission, July 12, 2000. This estimate for claims from the Pacific theater excludes claims sent to claimants in the Philippines.

³⁵ The WCC listed the following “Informational Activities” in their third *Semi-Annual Report to the Congress from the War Claims Commission for the Period Ending March 13, 1951*: “Special letters and releases [publicizing the March 1, 1951 deadline for filing] were prepared and sent to members of Congress, to directors of veterans’ agencies and governors of each State and Territory, to each member of all State legislatures in session, to other interested individuals, to veteran and internee organizations, press bureaus, weekly newspapers, and to radio stations. A total of 35,426 letters and releases were distributed in connection with this program. The Commission received press clippings from all sections of the country showing extensive use of its released material. Between January 20, 1950 and February 28, 1951, the Commission noted 8,286 column inches of war claims items As noted previously, the Philippine press has given extensive coverage to the activities of the War Claims Commission as they relate to Philippine claimants” (p. 14).

³⁶ National American Ex-POW Association, Inc., and the Center for Civilian Internee Rights, Inc., *A Legislative Prospectus on American Civilian POW’s and Hostages*, 1991.

recognized that the resources of Japan are not presently sufficient, if it is to maintain a viable economy, to make complete reparation for all such damage and suffering and at the same time meet its other obligations.

In addition, Article 14 (b) stated:

Except as otherwise noted in the present Treaty, the Allied Powers waive all reparations claims of the Allied Powers, other claims of the Allied Powers and their nationals arising out of any actions taken by Japan and its nationals in the course of the prosecution of the war, and claims of the Allied Powers for direct military costs of occupation.

Chapter V, Article 16, of the Treaty, which addresses indemnification of Allied prisoners of war, stated:

As an expression of its desire to indemnify those members of the armed forces of the Allied Powers who suffered undue hardships while prisoners of war of Japan, Japan will transfer its assets and those of its nationals in countries which were neutral during the war, or which were at war with any of the Allied Powers, or, at its option, the equivalent of such assets, to the International Committee of the Red Cross which shall liquidate such assets and distribute the resultant fund to appropriate national agencies, for the benefit of former prisoners of war and their families on such basis as it may determine to be equitable.

In Chapter V, Article 19, Japan waived all war claims of Japan and its nationals against the Allied Powers.

Chapter VI, Article 26, of the Treaty, dealing with bilateral treaties of peace stated in part:

Should Japan make a peace settlement or war claims settlement with any State granting that State greater advantages than those provided by the present Treaty, those same advantages shall be extended to the parties to the present Treaty.

Thus in lieu of reparations, certain categories of Japanese assets in neutral countries or in countries with which the Allied Powers were at war, as designated by the Treaty, were liquidated and the money was transferred to the International Committee of the Red Cross, which in turn was to distribute it to the appropriate national agency in each Allied government. Each Allied government was then to distribute it to its POW claimants on an equitable basis. However, since the United States had already paid out money to its POWs via the War Claims Commission, first claim on the \$12.6 million in Japanese assets raised under the Treaty was given to POWs from other Allied countries.³⁷

³⁷ Information dated Dec. 27, 1999 from William Slany, State Department's Office of the Historian, plus accompanying pages from the International Committee of the Red Cross, from unidentified printed sources.

For information on U.S. renunciation of money due it under Article 16 of the Treaty, see also pp. 4 and 13 of the *Report on the Activity of the International Committee of the Red Cross for the Indemnification of Former Allied Prisoners of War in Japanese Hands* (continued...)

Survival Rates in Japanese and German WWII Camps

The stark differences in reported death rates for U.S. soldiers and civilians in German vs. Japanese camps dramatize the nature of the experience of Japan's camps for POWs and internees. Dr. Stenger's figures list 93,941 U.S. military personnel captured and interned by Germany, of whom 1,121 died (a little over a 1% death rate), and 27,465 U.S. military personnel captured and interned by Japan, of whom 11,107 died (more than a 40% death rate).³⁸ The Center for Internee Rights (CFIR), an internee advocacy group, uses the same figures as Dr. Stenger for Nazi POWs and POW deaths. However, CFIR has different figures for POWs of Japan. Using its higher figures for both American POWs held by Japan (36,260) and their higher number of POW deaths (13,851) results in a slightly lower percentage of POW deaths, 38.2%. According to the Center for Internee Rights, of the 4,749 U.S. civilians held by the Germans, 168, or 3.5%, died; in contrast, of the 13,996 American civilian internees they believe were held by Japan, 1,536, or 11 %, died.³⁹ A similar figure of 13,979 for the total number of American civilian internees held by Japan was compiled by the Army's Office of the Provost Marshal General's Prisoner of War Division.⁴⁰

A recent book by Linda Goetz Holmes, *Unjust Enrichment: How Japan's Companies Built Postwar Fortunes Using American POWs*, offers additional information on POW camp experiences.⁴¹

Holmes highlights information from British signals sergeant Jack Edwards, who was a POW and became part of a British and American war crimes investigating

³⁷ (...continued)

(International Committee of the Red Cross, Geneva, 1971). Page 38 of this document lists the total amount received from Japan plus interest as of Dec. 31, 1970, as being SFr 71,400,288.20 (Swiss francs), which at 1970 exchange rates equaled \$16,543,162.

See also *War Claims Arising Out of World War II*, 83rd Cong., 2nd sess., H.Doc. 67 (Washington: GPO, 1953), pp. 40-43. This contains the supplementary report of the War Claims Commission on war claims arising out of World War II.

³⁸ Stenger, *American Prisoners of War in WWI, WWII, Korea*

³⁹ Statistics on WWII POWs and Internees from the Center for Internee Rights, Inc.

⁴⁰ *American Civilian Internees Formerly Detained by the Japanese Government*.

⁴¹ Linda Goetz Holmes, *Unjust Enrichment: How Japan's Companies Built Postwar Fortunes Using American POWs* (Mechanicsburg, PA: Stackpole Books, 2001).

Ms. Holmes's book is based on newly declassified U.S. documents at the National Archives, translated WWII Japanese signals intelligence messages found at the National Security Agency's Center for Cryptologic History, International Red Cross documents, documents from the Swiss National Bank, Bank of Tokyo-Mitsubishi, and Federal Reserve Bank of New York, other bank records, study of other Japanese sources, and interviews with over 400 POWs. In May 2000, Ms. Holmes was appointed to the historical advisory panel of the Nazi War Crimes and Japanese Imperial Government Records Interagency Working Group. See press release at [<http://www.nara.gov/nara/pressrelease/nr00-72.html>], which noted her knowledge of the "history of Japanese war criminality in World War II."

team which in 1946 searched the remains of the Kinkaseki copper mine, Prisoner of War Branch Camp No. 1, Formosa (Taiwan), for evidence.⁴² According to Edwards, among the burnt debris of the camp offices he found 15 handwritten transcriptions of broadcast orders dated April 1942 through August 20, 1945 (5 days after the Emperor announced the Japanese surrender), from command headquarters, Tokyo.

Holmes included the text of one of the documents Edwards reportedly found—August 1, 1944, orders from the Japanese vice-minister of war to all POW camp commanders in the occupied territories and home islands. In answer to the question from the head of the POW administration on Formosa asking for clarification as to circumstances under which he should act on his own, according to this document, the vice-minister authorized commanders to kill all the POWs they held if “an uprising of large numbers cannot be suppressed without the use of firearms” or “when escapees from the camp may turn into a hostile fighting force” and “not to allow the escape of a single one, to annihilate them all, and not to leave any traces.”⁴³ Holmes then cites several specific instances—Wake Island, October 1943; Palawan Island, December 1944; Borneo, June 1945—in which, she writes, camp commanders, believing their camps were soon to be attacked, carried out these orders and massacred all but handful of their POWs.⁴⁴ Later in her book Holmes reported the discovery of a copy of a much more official copy of this same execution order in the files of the Japanese Governor General of Formosa, Richiki Ando.⁴⁵ Holmes added that documents at the National Archives indicated that although this execution document was not mentioned in open court at the Tokyo War Crimes Trials, it was apparently introduced into evidence in January 1947 by the prosecutor and admitted into evidence by the chief judge without comment as document #2701, exhibit 2015.⁴⁶

⁴² Holmes asserts that, unlike the German industrialists whose detailed and voluminous records were captured by swift moving Allied invasion forces, the Japanese industrialists had ample time between the announcement of the surrender and actual landing of occupation forces almost 3 weeks later to hide, burn, or otherwise destroy evidence. *Ibid.*, pp. 129, 135-136.

⁴³ *Ibid.*, pp. 115-116, for the full text of this document. For more information on death orders, see also Gavin Daws, *Prisoners of the Japanese: POWs of World War II in the Pacific* (New York: Morrow, 1994), pp. 324-325.

⁴⁴ Holmes, *Unjust Enrichment*, pp. 116-117.

⁴⁵ *Ibid.*, p. 121.

⁴⁶ *Ibid.*, pp. 119-126. The Japanese text and an English translation of this document are on pp. 123-124.

The full text of the Tokyo War Crimes Trials, officially known as the International Military Tribunal for the Far East, can be found in a 22-volume set, titled *The Tokyo War Crimes Trial*, annotated, compiled, and edited by John Pilchard and Sonia Magbuna Zaide (New York: Garland Publications, 1981).

The Bataan Death March

One of the most notable instances of Japanese brutality towards U.S. POWs occurred after the fall of Bataan in the Philippines. During what came to be known as “The Bataan Death March,” the Japanese military force-marched almost 80,000 starving, sick, and injured Filipino and U.S. troops—the majority Filipino—who had surrendered on Bataan in the Philippines, over 60 miles to prison camps at Camp O’Donnell in April 1942. According to Louis L. Snyder’s account, during these 6 days Japanese soldiers robbed, beat, tortured, and killed marchers at will. After the war Lt. Gen. Masaharu Homma, who commanded Japanese troops at Bataan, was held responsible for Japanese actions and was arrested, tried, and executed by firing squad in April 1946. As with some other WWII statistics, the estimated death toll during this 6-day march varies. Stanley Falk estimates 5,000-10,000 Filipinos were killed plus a maximum of 650 Americans; Louis L. Snyder estimates that 10,000 prisoners, 2,300 of them American, died or were killed.⁴⁷ According to retired Army Col. John E. Olsen, who was assigned to tabulate daily strength reports at O’Donnell, of approximately 9,000 U.S. military personnel who survived the march and reached Camp O’Donnell, from April 25 through July 5, 1942, 1,253 or almost 17% died. Of the 50,000 or so Filipino troops at O’Donnell, he says at a rough estimate 25,000 or 50% died.⁴⁸

“Hell Ships”

Thousands of American POWs were reportedly transported to work in the Philippines, Japan, China, Thailand, and Korea in prison vessels known as “Hell Ships.” Packed so tightly many could hardly do anything but stand in the inadequately ventilated holds of cargo ships, fed almost no food and given little water on trips that lasted sometimes many weeks, U.S. POWs were reportedly also subject to attack when their prison ships, unmarked in violation of international law, were attacked by U.S. submarines.⁴⁹ Holmes writes in *Unjust Enrichment* that her research shows that these ships were owned and operated by Japanese companies, many of

⁴⁷ Stanley L. Falk, *Bataan, the March of Death* (Norwalk, CT: Easton Press, 1962). See pp. 194-200 for discussion of his process of estimating the number of deaths.

Snyder, *Historical Guide to World War II*, pp. 68-69.

Louis Morton, *The Fall of the Philippines*, Office of the Chief of Military History, Dept. of the Army, 1953, p. 467 (United States Army in World War II. The War in the Pacific). The volume covering the fall of the Philippines in the multi-volume official Army history of WWII, which covered each action by the Army in minute detail, devotes only one paragraph to the Bataan Death March, noting in a footnote that “The individual surrender of units and the death march are not treated in this volume since they did not affect the course of military operations on Bataan.” The footnote then refers the reader to what was then Stanley L. Falk’s M.A. thesis, entitled “The Bataan Death March.”

⁴⁸ John E. Olson, *O’Donnell: Andersonville of the Pacific* (Lake Quivara, KS: John E. Olson, 1985), pp.1-6.

⁴⁹ “Striking Back at Japan, Inc.,” *TIMEAsia*, Aug. 16, 1999.

See [<http://www.time.com/time/asia/asia/magazine/1999/990816/payback1.html>]. See also Holmes, *Unjust Enrichment*, p. 38.

which were transporting POWs to work in their owners' businesses. She reports that Japanese records showed there were a total of 69 Japanese merchant ships that transported POWs — 48 made trips to their destination without attack, but another 21 were torpedoed.⁵⁰ According to Holmes's research, at least 17 of the 69 ships were built, owned, and operated by Mitsubishi, and other primary owners were Mitsui, Kawasaki, and Yamashita Kisen.⁵¹ According to one news source, the greatest loss of life apparently occurred when the *Arisan Maru*, holding 1,800 U.S. POWs, was torpedoed by the U.S.S. *Snook*, killing all but five POWs.⁵² Another attack with major POW losses was the torpedo attack by the submarine U.S.S. *Paddle* on the *Shinyo Maru*, which reportedly resulted in the deaths of all but 82 of the 750 U.S. POWs packed into her hull. There were reports of survivors in the water being shot by Japanese guards. Holmes adds, "... of 55,279 Allied POWs transported by sea, 10,853 drowned, including 3,632 Americans. At least 500 POWs perished at sea of disease and thirst."⁵³ According to another account, five POW ships were sunk by U.S. ships and planes, resulting in the deaths of about 5,000 U.S. POWs.⁵⁴ A different accounting in a recent book on POW ships by historian Gregory F. Michino lists a total of 156 voyages made by 134 ships from 1942-1945, which resulted in the transportation of 126,064 POWs from several nations and in the death of 21,039 of them.⁵⁵

POWs Made to Perform Forced Labor

Until now, researchers who have lacked access to Japanese government and private company records have not known how many people Japanese firms used as forced laborers. Some historians have speculated that there were approximately 700,000 Koreans, 40,000 Chinese, and hundreds of thousands of other Asians who were used as slave laborers. They guessed that perhaps half of the 140,000 Allied POWs captured by the Japanese were forced to work.⁵⁶

⁵⁰ Holmes, *Unjust Enrichment*, p. 33.

⁵¹ *Ibid.*, pp. 84, 155.

⁵² "Thousands Died in Hell Ships," *Associated Press*, Sept. 8, 2000, story posted on the *St. Augustine Record's* Web site at [http://staugustine.com/stories/090800/nat_20000908.029.shtml].

See also the listing for the U.S.S. *Snook*, confirming her sinking of the *Arisan Maru* on Oct. 24, 1944, in the *Dictionary of American Naval Fighting Ships*, vol. VI, (Washington: Naval History Division, Dept. of the Navy, 1976), p. 540.

⁵³ Holmes, *Unjust Enrichment*, p. 33.

⁵⁴ "Torpedo Survivors Gather in Fla," *AP Online*, Sept. 8, 2000. Available through NEXIS Library: NEWS File: ALLOWS.

See listing for U.S.S. *Paddle's* sinking of the *Shinto Mary* on Sept. 7, 1944, in *Dictionary of American Naval Fighting Ships*, vol. V, p. 198.

⁵⁵ Gregory F. Michino, *Death on the Hellships: Prisoners at Sea in the Pacific War* (Annapolis, MD: Naval Institute Press, 2001), pp. 309-317.

⁵⁶ "Slave Labor Is Japan's Forgotten Holocaust, Litigation: Former Allied Prisoners of War, (continued...)

Holmes in *Unjust Enrichment* compiled a list from Japanese sources of 50 Japanese firms which “are known,” she said, to have used American prisoners from 1942 to 1945.⁵⁷ Of these firms, she reported that the biggest users of American POWs were Mitsui, Mitsubishi, and Nippon Steel. Others on her list included Showa Denko and Kawasaki Heavy Industries.⁵⁸ These companies have been the focus of recent suits by POWs seeking payment for their forced labor.

According to Holmes’s research, approximately 25,000 U.S. POWs were forced to labor for Japanese companies.⁵⁹ POWs reportedly were sent to work in the Japanese home islands, Formosa (Taiwan), northeast China, Manchuria (Manchukuo), and Korea. American POWs reportedly were also sent to work on the infamous Burma-Siam railway project and later shipped to Japan.⁶⁰ Holmes reported that of the 61,000 POWs working on the Burma-Siam Railway, which included the “Bridge on the River Kwai,” 13,708 died; of the 668 Americans working on the Bridge, 133 died.⁶¹ According to Holmes’s book, of the 25,000 American POWs doing forced labor, over 4,100 died, mainly at the hands of the employees of the companies that U.S. POWs were forced to work for rather than the Japanese military.⁶²

Holmes’s research indicates that Japanese companies paid the military a daily fee for use of each POW.⁶³ In addition, companies were supposed to pay each POW

⁵⁶ (...continued)

Asian Slave Laborers, ‘Comfort Women’ and Others Are Seeking Tens of Billions of Dollars in Reparations from Japanese Firms,” *Baltimore Sun*, July 9, 2000, p. 6C.

⁵⁷ Holmes, *Unjust Enrichment*, pp.149-150. In his preface (p. xiii), Bruce Lee put the number of Japanese companies using U.S. POWs and civilian internees as forced laborers at 79.

⁵⁸ *Ibid.*, pp. xvii-xxii.

⁵⁹ *Ibid.*, p. xvii. Depending on whether just POWs or POWs and civilians are counted, different totals can be reached. In a phone conversation (Oct. 10, 2001), Ms. Holmes referred to a high figure of over 36,000 that was compiled by the advocacy group, Center for Internee Rights.

⁶⁰ Holmes, *Unjust Enrichment*, p. xviii.

⁶¹ *Ibid.*, p. 93. See also “Tribute: U.S. Honors ‘Death Railway’ Prisoners; Ambassador Unveils Plaque at River Kwai,” *Bangkok Post*, Sept. 15, 1997, p. 3. Sailors from the U.S.S. *Houston* and artillerymen from the “Lost Battalion,” captured in Indonesia, worked on the “Death Railway.” According to this *Bangkok Post* article, of the 688 U.S. POWs working on the railway, 356 died “from disease, starvation and brutality inflicted by Japanese prison guards.”

⁶² *Ibid.*, p. xxi, pp. 48-49, 69, 73.

⁶³ *Ibid.*, p. 27, gives one instance in which the Japanese Home Ministry monthly report of September 1942 records payment of two yen per day per man from direct employers of war prisoners that was given to the Army, used for national defense, or POW recreation equipment.

for each day worked, and although POWs were forced to sign pay sheets saying they received pay, payments to POWs were almost never made.⁶⁴

Although Article 29 of the Geneva Convention specifies that each prisoner was allowed to receive one Red Cross package per week, Holmes's research indicates Red Cross packages, mail, and other care packages, though sent to POWs, were withheld from them or given to Japanese soldiers. She found that many POWs got only one Red Cross package during their 3½ years in prison.⁶⁵ According to Holmes, Article 40 of the Geneva Convention stipulates that POWs should be able to send and receive mail, whereas Japanese camp commanders would accept sacks of mail for prisoners but refuse to distribute them. Red Cross boxes containing vital medical supplies were also kept and not distributed to POWs and those trying to keep them alive, Holmes writes.⁶⁶

The Blocked POW Relief Fund

Holmes's research into U.S. WWII documents, Swiss and Japanese banking records, and NSA translations of WWII Japanese signals intelligence also uncovered, she reported, the existence of a fund set up for the relief of Allied POWs working on the Burma-Siam railroad. After secret talks, the governments of the United States, Britain and Sweden (representing the Netherlands) agreed on a plan in which money from each country was to be placed in a Swiss bank account. This money was then to be sent to the International Red Cross for the Allied POWs most in need of relief—those working on the Burmese-Siam railway. In August 1944, the United States contributed 2.8 million Swiss francs, today worth \$57 million dollars, to the account which was also contributed to by Britain and the Netherlands.⁶⁷

According to Holmes, Japan put every obstacle it could in the way of money being disbursed for relief. One of its conditions was that the money be transferred to the Japanese government's official bank, the Yokohama Specie Bank, which was done. Holmes's research indicates that most of these transferred funds, which eventually totaled 98.5 million Swiss francs (worth \$197 million in today's dollars), were not actually used for Allied POW relief as the Japanese promised. A small amount went for POW relief, and the Japanese used 17 million francs to order artillery from the Swiss, an order that was never filled because of the war's end. Some of the money simply disappeared, and the bulk sat in Japan gathering interest.⁶⁸ In the 10 years after the war, various countries that contributed to the fund got some or all of their contributions back to disburse to POWs and other claimants or to return to their general treasuries. In 1955, the remaining money was sent from the Yokohama Specie Bank to the International Committee of the Red Cross in Geneva

⁶⁴ Ibid., p. xix.

⁶⁵ Ibid., pp. 102, 109.

⁶⁶ Ibid., pp. 51-53, 80, 98.

⁶⁷ Ibid., pp. 98-112.

⁶⁸ Ibid., p. 103.

and divided among 14 beneficiary nations for distribution to their POWs. The United States got back none of the money it had contributed.⁶⁹

Unit 731

Starting with the 1980 publication of “Japan’s Germ Warfare: The U.S. Cover-up of a War Crime,” in *The Bulletin of Concerned Asian Scholars*, information on alleged Japanese Army biological warfare experiments on POWs has slowly been revealed, contributing to the continuing intensity of the WWII POW issue.⁷⁰

According to Sheldon Harris, there were apparently at least two different chemical and biological warfare units centered in Manchuria, each commanded by a different officer. One organization was Unit 100, with a central headquarters at Changchun, 150 miles south of Harbin: it was commanded by Major, later Major General, Wakamatsu Yujiro. Although, Harris reported, it experimented on humans, it has gotten little attention so far.⁷¹ The experiments about which the most is known are the biological warfare (BW) as well as some chemical warfare (CW) experiments, reportedly directed by a military doctor named Shiro Ishii.⁷² From the mid-1930s through 1945, Dr. Ishii, who eventually rose to the rank of Lieutenant General, reportedly directed BW experiment organizations under various names at a number of locations in and around the northern Manchurian city of Harbin, capital

⁶⁹ Ibid., pp. 103-111.

⁷⁰ John W. Powell, “Japan’s Germ Warfare: The U.S. Cover-up of a War Crime,” *Bulletin of Concerned Asian Scholars*, vol. 12, no. 4 (Oct.-Dec. 1980), p. 17.

See statement by Han Xiao, China’s leading expert on Unit 731, that U.S. POWs were experimented on in “A Half Century of Denial: The Hidden Truth About Japan’s Unit 731,” *U.S. News and World Report*, vol. 119, no. 5 (July 31, 1995), p. 56.

See “Japan Rebuffs Requests for Information about Its Germ-Warfare Atrocities,” *New York Times*, Mar. 4, 1999, sec. A, p. 12, for the statement, “It is still not established, for example, whether American prisoners of war were among those experimented on.”

⁷¹ Sheldon Harris, *Factories of Death: Japanese Biological Warfare, 1932-1945, and the American Coverup* (London, New York: Routledge, 1994), pp. 83-100.

⁷² “In Search of Buried Poison,” *Newsweek*, July 20, 1998, p. 27. A chemical warfare unit about which little is known at the present time was Unit 516, headquartered at Qiqihar in northeast China.

In 1999 the Japanese government signed an agreement with China which pledged that Japan would be responsible for demilitarizing what Japan says are some 700,000 or more shells filled with CW agents left in China after Japanese forces withdrew after their defeat in WWII. China puts this figure at 2,000,000 shells. China had claimed that these live munitions had injured or killed over 2,000 Chinese who had accidentally encountered them since 1945. See “Gov’t Oks Use of Articles for Weapons Disposal in China,” *Japan Weekly Monitor*, Apr. 24, 2000 (online). Available through NEXIS Library: NEWS File: CURNWS.

“Japan, China OK Chemical Arms Cleanup,” *Asahi News Service*, Aug. 2, 1999 (online). Available through NEXIS Library: NEWS File: CURNWS.

“Cleaning Up a Poisonous China,” *The Japan Times*, Aug. 15, 1998 (online). Available through NEXIS Library: NEWS File: CURNWS.

of Heilongjiang province. His main organization, Unit 731, was based in Manchuria, 15 miles south of Harbin at Ping Fan.⁷³ The base at Ping Fan had a perimeter of almost four miles, an airfield, and a rail spur from Harbin, 150 buildings, and 3,000 employees.⁷⁴ Ping Fan was declared a Special Military Region and was very securely fortified and guarded.⁷⁵

Three books have been written about the activities of Unit 731, and it has been the subject of frequent mentions in U.S. newspaper articles in the late 1990s. A one-hour television documentary on Unit 731, entitled *History Undercover: Unit 731, Nightmare in Manchuria*, was broadcast on the History Channel on March 7, 1999, and was rebroadcast an additional three times.⁷⁶ Books have been written about Unit 731 in Japan, former members have come forward to tell of their activities, and a traveling exhibit about it has been seen by some 200,000 Japanese.⁷⁷

Ongoing private investigations by scholars have described Unit 731 as spreading disease and causing epidemics in field experiments that may have killed tens or even hundreds of thousands of Chinese.⁷⁸ Although exact numbers are unknown, various

⁷³ Sheldon Harris quotes Lt. Gen. Kajitsuka Ryuji, Lt. General in the Medical Service and former Chief of the Medical Administration of the Kwantung Army, as saying that he saw an imperial decree giving Ishii permission to start the initial BW operation in Manchuria in 1936 “by Command of the Emperor” and that later on Emperor Hirohito also issued a decree authorizing creation of Unit 731. Prince Mikasa, the emperor’s brother, also reportedly inspected the work at Pingfan in 1943. Harris, *Factories of Death*, pp. 40, 142.

See also “A Half Century of Denial,” *U.S. News & World Report*, July 31, 1995, p. 56.

⁷⁴ Harris, *Factories of Death*, pp. 33-35.

“Bacteriological Warfare Museum to Open in Harbin Next June,” Asian Political News (online). Available through NEXIS Library: NEWS File: CURNWS. According to news accounts, in June 2001 the Chinese plan to open to the public part of a “Unit 731 Bacteriological Warfare Museum” in Harbin and to ask that the U.N. Educational, Scientific, and Cultural Organization (UNESCO) put this site on its World Heritage list.

⁷⁵ *Ibid.*, pp. 31-56.

⁷⁶ Information on the History Channel Web site [<http://www.historychannel.com/>] and from discussion with AETV customer relations representative, Dec. 3, 1999. This program can be ordered through the History Channel Web site.

⁷⁷ “‘Japan’s Auschwitz’ Revealed; Nation Confronts Unit 731’s Cruelty.” *Phoenix* [Ariz.] *Gazette*, Sept. 30, 1994, p. A6.

Japanese language books on Unit 731 include Seiichi Morimura’s 1981 *The Devil’s Gluttony*, a three-volume fictional narrative based on historical research, and Keiichi Tsuneishi’s later book, *The Biological Warfare Unit That Disappeared*.

“Wartime Skeletons Return to Haunt Japan: Human Remains Found on a Tokyo Building Site Have Revived the Ghosts of Japan’s Experiments with Biological Weapons,” *New Scientist*, Feb. 25, 1995, p. 12.

⁷⁸ “Japanese War Crimes Are Still Coming to Light; The So-Called ‘Asian Holocaust’ Was Covered Up by the Americans, Some Experts Say,” *Orlando Sentinel*, Mar. 14, 1999, p. A6.

According to Qiu Mingxuan, a Chinese epidemiologist who recently testified in a
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researchers have alleged that Unit 731 performed laboratory experiments on somewhere between 850 to 10,000 or more subjects, and that none of them survived.⁷⁹ According to author Sheldon Harris, victims consisted mostly of Han Chinese inhabitants of the area around Harbin but also included stateless White Russians, Harbin Jews, criminals, communist guerrillas or spies, Mongolians, Koreans, the mentally handicapped, and also Soviet soldiers captured in border skirmishes.⁸⁰ Newspaper articles also state that Allied soldiers, possibly including some Americans, might have been experimented on.⁸¹

Experiments on humans reportedly not only included infection with anthrax, typhoid, and other infectious diseases but also live dissection of prisoners without anesthesia, exposing prisoners to low air pressure, freezing of prisoners, removal of limbs, blood, and organs (often without anesthesia) to see the results, exposing humans to fragmentation rounds containing infectious agents, and other experiments.⁸²

Reports of Experimentation on POWs

News accounts have indicated that possibly as many as 1,500 U.S. POWs, many of them survivors of the Bataan Death March, were among Allied POWs sent to a POW camp at Mukden (also known as Shenyang) in Manchuria, more than 300

⁷⁸ (...continued)

Japanese court about Unit 731's biological warfare in China during WWII, the most conservative estimates are that 270,000 people were made ill and that 50,000 people died as a result of Unit 731's spreading plague, cholera, typhus, anthrax, and dysentery. *Newsweek*, Feb. 12, 2001, p. 56.

⁷⁹ "Death Factories," *New York Times Book Review*, Jan. 23, 2000, p. 22. A low estimate of 850 POW experimentees is cited in this book review of *The Biology of Doom: The History of America's Secret Germ Warfare Project*.

See "Japan Rebuffs Requests for Information," *New York Times*, Mar. 4, 1999, for an estimate of 10,000.

⁸⁰ Harris, *Factories of Death*, p. 49.

⁸¹ See "Human Guinea Pigs 'Advanced Medical Science'; Japan, the Shame of Unit 731," *The Independent* (London), Apr. 16, 1995, p. 14, for information on a former Unit 731 member who said he saw specimen jars of organs labeled Chinese, Korean, and later Russian, American, French, and British.

See "Japanese Doctor Lectures as Penance for Horrors Inflicted on War Prisoners," *The Washington Times*, May 21, 1995, p. A1, for the allegation that American, Australian, British, Chinese and Russian POWs were injected with tetanus, anthrax, bubonic plague and other germs.

See also "A Half Century of Denial," *U.S. News & World Report*, for a statement by Chinese Unit 731 expert Han Xiao that American POWs at Mukden were injected with bacteria to test their immunity.

⁸² Harris, *Factories of Death*, pp. 57-82.

miles southwest of Harbin.⁸³ The first testimony by a U.S. POW about his experiences at Mukden apparently occurred in the brief testimony of Warren W. Whelchel in a 1982 field hearing on Veterans Administration health care in Montana. At the hearing, Whelchel testified that different men were given different injections and, thereafter, the Japanese took careful note of each man's condition.⁸⁴

At a half-day hearing of the Compensation Subcommittee of the House Veterans Affairs Committee, held in 1986 on treatment of U.S. POWs in Mukden, much of the discussion focused on compensation issues. There were four witnesses at the 1986 hearing, only one of whom was a former POW. The first witness, John H. Hatcher, Chief of Army Records Management and Army Archivist, testified that no primary records had been found by the Army dealing with what might have happened at Mukden and that Japanese Army records which could have contained such information had been returned unread to Japan. He stated that the Army had no records which could confirm or deny claims that had been made (p. 7-16). Former POW James Frank, the second witness, testified that he had been sent to Mukden and that he believed he had been experimented on. He described what he saw when he was assigned to help Unit 731 personnel with autopsies of those who died and he stated that Unit 731 functionaries were interested in only certain of the dead POWs. He also testified that after he had been liberated, he and others had been required by the Army to sign papers promising not to reveal what had gone on at the camp under penalty of court martial.⁸⁵ He also spoke of the difficulty in getting the VA to accept claims for illnesses he believed were caused by his time at Mukden when the VA said no medical records of such time existed (p. 16-24).

The third witness at the 1986 hearing, Greg Rodriguez, Jr., was the son of a deceased POW and had previously testified at the 1982 hearing in Montana. He stated he believed his father's many ailments stemmed from being experimented on at Mukden, talked of his father's struggle to get veterans' benefits and about the records the son had found about Mukden (p. 24-32). The last witness, William Triplett, who had written a book focusing on involvement of Unit 731 personnel in the Tokyo Imperial Bank murders in 1948, said that in his research he had found declassified DOD documents which he believed attested to the existence of Unit 731, to the fact that it performed biological warfare experiments on human beings, and that Army occupation officials knew about these facts when dealing with former members of Unit 731. He quoted from a State Department memorandum that was part of a U.S. War Department Judge Advocate General document, which said, "It should be kept in mind that there is a remote possibility that the independent investigation conducted by the Soviets in the Mukden area may have already disclosed evidence that American prisoners of war were used to experimental purposes of a BW nature and that they lost their lives as a result of these

⁸³ "Ex-POWs Suspect Germ Test Cover-Up; Japan and the U.S. Say the Records of the WWII Experiments Were Destroyed," *Austin American-Statesman*, Mar. 31, 1995, p. A18.

⁸⁴ U.S. Congress, House, Veterans' Affairs Committee, Subcommittee on Oversight and Investigations, *Veterans Administration Programs in Montana*, hearings, 97th Cong., 2nd sess., June 19, 1982 (Washington: GPO, 1982), p. 19.

⁸⁵ For an example of one such gag order, see Holmes, *Unjust Enrichment*, pp. 145-146.

experiments” (p. 34-35).⁸⁶ Mr. Triplett stated that he believed that the government was in possession of records about what happened to POWs at Mukden that could help the VA in diagnosing POWs’ ailments (pages 32-37).⁸⁷ Since 1994, there have been newspaper accounts discussing the experiences of several American POWs who were interned at Mukden.⁸⁸

In his 1994 book, *Factories of Death*, Sheldon Harris analyzed the fragmentary and sparse available data and concluded that “... the evidence, while inconclusive, suggests strongly that they [U.S. POWs] were not” [among those] “subjected to human BW experiments at Mukden.”⁸⁹

In *Unjust Enrichment*, Linda Goetz Holmes lays out in much more detail than Harris the reported incidents that led to POWs claims that they were experimented on at Mukden and elsewhere.⁹⁰

⁸⁶ Several such statements are cited in material inserted into the *Congressional Record* on Nov. 10, 1999, by Sen. Feinstein, in her remarks introducing S. 1902, the Japanese Imperial Army Disclosure Act of 1999. See *Congressional Record*, 106th Cong., 2nd sess., (Nov. 10, 1999), pp. S14541-S14547.

⁸⁷ U.S. Congress, House, Veterans Affairs Committee, Subcommittee on Compensation, Pension, and Insurance, *Treatment of American Prisoners of War in Manchuria*, hearings, 99th Cong., 2nd sess., Sept. 17, 1986 (Washington: GPO, 1986), p. 16.

⁸⁸ “Secret File: Japanese Scientists Experimented on U.S. Prisoners,” *Orlando Sentinel*, Aug. 15, 1995, p. A1.

See also “Truth Emerging on Ailing POWs, Japan Germ Unit,” *Los Angeles Times*, March 20, 1995, p. A1.

⁸⁹ *Ibid.*, p. 130.

The one reported instance of punishment for vivisection of American POWs was that of the trial and conviction of several doctors from the anatomy department of Kyushu University who dissected captured U.S. crewmen of a B-29 which crashed on May 5, 1945. Of the dozen U.S. airmen who parachuted down, at least nine were taken into custody. All but the crew’s captain, who was sent to Tokyo for interrogation, were subjected to vivisection experiments similar to those done at Unit 731. Thirty people were brought to trial by the Allied war crimes tribunal in Yokohama on Mar. 11, 1948, on charges of vivisection, wrongful removal of body parts, and cannibalism. Of the accused, 23 were found guilty of various charges (cannibalism charges were dismissed for lack of proof), five were sentenced to death, four to life imprisonment, and the rest to shorter terms. In Sept. 1950, General MacArthur reduced most of the sentences and by 1958 all those convicted were free. None of the death sentences was carried out. “Japan Admits Dissecting WWII POWs,” *The Denver Post*, June 1, 1995. p. A2.

⁹⁰ Holmes, *Unjust Enrichment*, pp. 84-91. “After interviewing dozens of ex-POWs from the Mukden complex, it seems apparent to this writer that on several occasions, medical personnel from elsewhere were allowed to visit the POW hospital and some barracks at the Mitsubishi Mukden camps, and that after they left, a certain number of POWs became very ill or subsequently died in a short time. It is equally apparent that many ex-POWs who were at Mukden were not aware of, or suspicious about, unusual medical activity, but this is not surprising. The Japanese doctors had a lot of subjects to choose from; Mitsubishi brought over 2,000 Allied prisoners to its base camp at Mukden of whom the majority, 1,485, were Americans.” Holmes also referred to other POWs in Japan and Taiwan who also thought
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U.S. Agreement Not to Prosecute Unit 731 Members

One of the most persistent allegations surrounding Unit 731 is one made in the initial 1980 article, “Japan’s Germ Warfare: The U.S. Cover-up of a War Crime” (in *The Bulletin of Concerned Asian Scholars*), in Harris’s *Factories of Death*, and elsewhere—that General Ishii and his staff were given immunity against prosecution as war criminals by the United States in exchange for the scientific information gathered during Unit 731’s experiments. In a letter to Rabbi Abraham Cooper of the Simon Wiesenthal Center in Los Angeles, dated December 17, 1998, Eli M. Rosenbaum, Director of the Department of Justice’s Office of Special Investigations, indicated that such a deal was struck. Mr. Rosenbaum wrote that “Two of these [formerly classified] reports [about biological warfare data collected by the Japanese and the arrangement made between the United States and Lieutenant General Shiro Ishii, the commander of Unit 731], dated November 17, 1981, and May 5, 1982, confirm that Ishii and his colleagues received immunity from prosecution and that, in exchange, they provided a great deal of information to U.S. authorities.”⁹¹

According to news accounts, Gen. Ishii returned to Japan after the war where he was permitted to continue medical research, was paid a Japanese government pension, and died of cancer in 1959.⁹² Moreover, many of Ishii’s chief lieutenants occupied prominent positions in post-war Japanese society.⁹³ According to one news

⁹⁰ (...continued)

that they had been experimented on.

⁹¹ Letter dated Dec. 17, 1998, on Department of Justice Criminal Division stationery, headed “RE: U.S. Non-Prosecution of Japanese War Criminals” and sent to Rabbi Abraham Cooper, Associate Dean, Simon Wiesenthal Center, Los Angeles, CA. Copy faxed to the author on July 5, 2000 by Eli M. Rosenbaum, Director, Office of Special Investigations, Department of Justice.

⁹² “Lawyers Target Japanese Abuses; WWII Compensation Effort Shifts From Europe to Asia,” *Washington Post*, Mar. 5, 2000, p. A1.

See also “High-Stakes Conflict Brings Out the Most Inhumane Research,” *The San Diego Union-Tribune*, Aug. 9, 1995, p. E1.

See “Japan Confirms WWII Tests on Humans,” *United Press International*, Apr. 17, 1982. Available through NEXIS Library: NEWS File: ALLNWS. Japanese Social Welfare Ministry official Kikuo Moriyama states that Lt. General Shiro Ishii received \$90,000 in government pension payments until his death.

⁹³ “Japan Blood Supplier, Facing HIV Penalty, to Be Acquired,” *New York Times*, Feb. 25, 1997, p. D7. For example, according to this article, Ryoichi Naito, founder and chairman of the Green Cross Corporation, a pharmaceutical company that became the largest producer of blood products in Japan, was one of Ishii’s officers; and Dr. Hisato Yoshimura, who directed Unit 731’s frostbite experiments, became president of Kyoto Medical College and was an advisor to Japan’s Antarctic expedition. According to another *New York Times* article, other Unit 731 members went on to be governor of Tokyo, president of the Japanese Medical Association, and head of the Japanese Olympic Committee. See “Unmasking Horror—A special report; Japan Confronting Gruesome War Atrocity,” *New York Times*, Mar. 17, 1995, p. A1.

“Human Guinea Pigs ‘Advanced Medical Science’; Japan/The Shame of Unit 731,” *The Independent* (London), Apr. 16, 1995, p. 14. This article asserted that members of Unit

(continued...)

account, the several hundred remaining members of Unit 731 were still holding their annual reunion in Japan as of 1999.⁹⁴

Missing Records

In the 20-year controversy over whether Americans were experimented on, the chief problem has been the lack of documentary evidence to support anecdotal accounts. According to U.S. Army testimony in the 1986 hearing on treatment of U.S. POWs in Mukden, the United States captured the records of the Imperial Army when it occupied Japan. These very hard-to-translate records were brought to this country, remained here for some 13 years largely untranslated and unread, and were then returned to Japan.⁹⁵ However, according to a 1999 *New York Times* article, in 1948 the Central Intelligence Agency screened the records before they were turned over to the National Archives. Later, 5% of the records were hurriedly microfilmed by a group including scholars from Harvard and Georgetown University, between the time they were ordered returned to Japan in 1957 and when they were actually put on a boat in February 1958.⁹⁶ Japan has denied access to these records to those trying to document the actions of Unit 731.⁹⁷ Author Sheldon Harris is quoted in the *New York Times* article as saying that he learned from Freedom of Information Act requests for military debriefing records dealing with this issue that relevant records were lost in the fire at the St. Louis Military Personnel Records Center in 1973.⁹⁸ In 1995 an article in the *Washington Times* quoted Ken McKinnon, spokesman for the Department of Veterans Affairs, as saying, “The Veterans Administration has never seen evidence that research was done on U.S. POWs. We would be more than willing to see new information on how POWs were treated and review the causes of injury and death.” Mr. McKinnon said that the VA depends on DOD for analysis and documentation in this area. The article then went on to say that a Pentagon

⁹³ (...continued)

731 served in senior positions in the National Hygiene Institute, the Ground Self-Defence Forces Medical School, and the universities of Tokyo, Kyoto, and Osaka.

⁹⁴ “Commentary; Tokyo Must Address the Actions of its Wartime ‘Killing Machine’; War Crimes; Japan Conducted Medical Experiments on Prisoners; This Issue Has Never Been Publically Examined,” *Los Angeles Times*, Apr. 26, 1999, part B5.

⁹⁵ Veterans’ Affairs Committee, *Treatment of American Prisoners of War in Manchuria*, p. 9.

⁹⁶ “The Secret History of World War II—Third in a Series of Occasional Articles—Calling Japan to Account,” *Boston Globe*, May 31, 2001, p. A1.

⁹⁷ “Japan Rebuffs Requests for Information ...,” *New York Times*, Mar. 4, 1999, p. A12. Statement by Japanese Embassy spokesman Tsuyoshi Yamamoto that his government would not comment, because this matter concerned “... the specifics of Japanese cooperation with the United States, which are of a diplomatic nature.”

See also “Revisiting World War II Atrocities; Comparing the Unspeakable to the Unthinkable,” *New York Times*, Mar. 7, 1999, sec. 4, p. 4.

⁹⁸ See the VA Fact Sheet, “Facts About the 1973 St. Louis Fire and Lost Records,” available at the VA Web site [<http://www.va.gov/pressrel/stlouis.htm>] about the fire that took place.

spokesman said he had never heard about U.S. POWs and the germ-warfare experiments at Mukden.⁹⁹

Efforts to Obtain an Apology

Several times since the end of WWII, Japanese government officials made statements that they regarded as an apology for their conduct in WWII, but that other nations did not accept as a full, direct, and unambiguous apology.¹⁰⁰ These statements have evolved. In 1989, Prime Minister Noboru Takeshita stated that, “We cannot say in affirmative terms whether the Japanese state was an aggressor nation. That is a matter for future historians to judge.”¹⁰¹ But, in 1991, on the 50th anniversary of the Japanese attack on Pearl Harbor, Japanese Prime Minister Kiichi Miyazawa apologized to the United States by expressing his “deep remorse ... that we inflicted an unbearable blow on the people of America and the Asian countries.”¹⁰² In 1992, Prime Minister Kiichi Miyazawa apologized to the people of the Asia-Pacific Region, saying, “During a period in the past, the people of the Asia-Pacific region experienced unbearable suffering and pain due to our country’s behavior. I would like to express again deep remorse and regret.” According to the article citing his apology, this apology to the people of the Asia-Pacific region was the first apology by a Japanese prime minister in a policy speech. A senior government official said that this apology to the people of the Asia-Pacific region was also meant to apply to the United States. However, a month before this apology, the Japanese parliament rejected a bill which called specifically for a Japanese apology on the anniversary of the attack on Pearl Harbor.¹⁰³ In August 1993, Japanese Prime Minister Morihiro Hosokawa stated that the Japanese “... state clearly before all the world our remorse at our past history and our renewed determination to do better.”¹⁰⁴

⁹⁹ “GIs Tell of Germ Horrors in Japan,” *Washington Times*, Mar. 10, 1995, p. A17.

¹⁰⁰ “WWII Apology Fails to Find a Voice in Japan; Asia: Lower House Approves A Statement on War Actions That Wins Praise Neither at Home nor Abroad,” *Los Angeles Times*, June 10, 1995, p. A12.

“Asia Underwhelmed by Japan’s Apology; Statement on WWII Gets Tepid Reaction Elsewhere, But Could Play Well Politically at Home,” *Washington Post*, Aug. 16, 1995, p. A21.

“Lawyers Target Japanese Abuses; WWII Compensation Effort Shifts From Europe to Asia,” *Washington Post*, Mar. 5, 2000, p. A1.

¹⁰¹ “Sorry? Japan Has Been Talking of Apology in the Approach to Today’s Anniversary of Its Attack on Pearl Harbor: But Does It Actually Go Any Deeper Than Talk?” *The Daily Telegraph* (London), Dec. 7, 1991, p. 15.

¹⁰² “Miyazawa Expresses ‘Remorse’; Japanese Premier Calls Pearl Harbor ‘Unbearable Blow,’” *Washington Post*, Dec. 7, 1991, p. A1.

¹⁰³ “Miyazawa Proclaims 1992 Test Year for Japan’s Int’l Role,” *Kyodo News Service, Japan Economic Newswire*, Jan. 24, 1992 (online). Available through NEXIS Library: NEWS File: ALLNWS.

¹⁰⁴ “Japan Makes First Apology for Conduct in WWII,” *The Boston Globe*, Aug. 15, 1995, (continued...)

In 1994 the Japanese Foreign Ministry apologized for the “deeply regrettable” conduct of failing to break off diplomatic relations before their attack on Pearl Harbor. However, a Japanese Foreign Ministry spokesman said that this apology was to the Japanese people and not to the people of the United States.¹⁰⁵

On August 15, 1995, Japanese Prime Minister Tomiichi Murayama made the following statement, “During a certain period in the not too distant past, Japan, following a mistaken national policy, advanced along the road to war, only to ensnare the Japanese people in a fateful crisis, and through its colonial rule and aggression caused tremendous damage and suffering to the people of many countries, particularly to those of Asian nations.” He went on to say, “In the hope that no such mistake be made in the future, I regard, in a spirit of humility, these irrefutable facts of history, and express here once again my feelings of deep remorse and state my heartfelt apology.”¹⁰⁶ However, some observers pointed out that he made his apology in the first person, on his behalf, and not that of Japan.¹⁰⁷ This statement was not seen as adequate by various victims’ groups because, they said, it was not endorsed by the Japanese parliament.¹⁰⁸ According to newspaper accounts Prime Minister Murayama’s apology obtained a tepid reaction in Asia.¹⁰⁹ Speaking to veterans in Honolulu on the 50th anniversary of V-J Day, a few days after Murayama’s remarks, President Clinton said, “...let me say especially how much the American people appreciate the recent powerful words of the Japanese Prime Minister, Mr. Murayama, when he expressed his nation’s regret for its past aggression and its gratitude for the hand of reconciliation that this, the World War II generation, extended 50 years ago.”¹¹⁰

In her September 8, 2001, speech given on the 50th anniversary of the signing of the Multilateral Treaty of Peace with Japan in San Francisco, Japanese Foreign Minister Makiko Tanaka echoed the statement of Murayama by saying, “Facing the facts of history in a spirit of humility, I reaffirm today our feeling of deep remorse and heartfelt apology expressed in Prime Minister Murayama’s statement of 1995.”

¹⁰⁴ (...continued)

p. 1.

¹⁰⁵ “Japan Apologizes to Itself for Pearl Harbor; ‘Deeply Regrettable’ Lapse by Diplomats Said to Have Brought Shame to the Country,” *Washington Post*, Nov. 22, 1994, p. A23.

¹⁰⁶ “Premier of Japan Offers ‘Apology’ for Its War Acts,” *New York Times*, Aug. 15, 1995, p. A1.

¹⁰⁷ “Japanese Apology Still Falls Short [editorial],” *Omaha World Herald*, Aug. 19, 1995, p. 46.

¹⁰⁸ “Lawyers Target Japanese Abuses,” *Washington Post*, Mar. 5, 2000, p. A1.

¹⁰⁹ “Asia Underwhelmed by Japan’s Apology; Statement on WWII Gets Tepid Reaction Elsewhere, But Could Play Well Politically at Home,” *Washington Post*, Aug. 16, 1995, p. A21.

¹¹⁰ “Clinton Thanks Japan for WWII Apology; Vets Praised for Spirit of Reconciliation,” *Washington Times*, Sept. 2, 1995, p. A1.

Public Papers of the Presidents: William J. Clinton, remarks at the Joint Service Review ..., Honolulu, HI, Sept. 1, 1995 (Washington: GPO, 1996, 1995: Book II), p. 1278.

She also said in her speech, without elaboration, that the war has left an incurable scar on many people, including former prisoners of war—apparently the first such mention of POWs.¹¹¹ According to newspaper accounts, many protestors, Chinese-American groups, former U.S. prisoners of war, and others staged a conference demanding apologies and reparations from Japan. Speaking of reparations, Tanaka told reporters that based on the Peace Treaty, “the entire issue was settled.” Secretary of State Colin Powell, who joined in the celebration, said, “The treaty dealt with the matter 50 years ago,” but added, “at the same time we have the utmost compassion for the veterans who suffered.”¹¹² Powell is also quoted as saying, “It is the United States position that those claims were extinguished in the San Francisco Treaty.”¹¹³

Efforts to Obtain More Compensation — Congressional

In the years since the War Claims Commission’s payments, POW/internee groups have tried various approaches to obtain more compensation either directly from Japan or from the United States. For instance, in the 98th Congress, H.R. 3188 was introduced, which proposed permitting Bataan Death March prisoners held afterwards as Japanese POWs to sue in the U.S. Court of Claims. The Justice Department testified in opposition to the bill, citing numerous reasons why giving these POWs ability to sue the Japanese government or the U.S. government over this issue would violate established case law, international law, the Feres Doctrine (which disallows suits by members of the military for damages received while in the military), and the established jurisdiction of the U.S. Court of Claims; there was no floor action on this bill.¹¹⁴ In the 101st Congress, S. 3191, the Civilian Ex-Prisoner of War Health Benefits Act of 1990, was introduced but had no floor action.

In the 104th Congress, H.Con.Res. 176, calling on Japan to pay reparations and express formal regret to U.S. POWs and civilian internees, was introduced, but there was no hearing and no floor action on this concurrent resolution. H.R. 3084, the Former Civilian Prisoners of War Benefits Act of 1996, dealing with providing medical care and disability benefits for former civilian prisoners of war, was also introduced in the 104th Congress, but no floor action occurred.

¹¹¹ “Japan Falls Short on War Apology; Memorial: The Foreign Minister’s Comments at a 50-year Celebration of Treaty Signing in San Francisco Disappoint Thousands of Ex-POWs,” *Los Angeles Times*, Sept. 9, 2001, pt. 2, p. 6.

¹¹² “War Memories Mar Peace Observance; Treaty with Japan Is 50 Years Old but Victims Can’t Forget,” *San Francisco Chronicle*, Sept. 9, 2001, p. A1.

¹¹³ “Powell, Tenneco Reject Calls for War Reparations from Japan,” *Agency France Press* Sept. 8, 2001 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹¹⁴ U.S. Congress, House, Judiciary Committee, Administrative Law and Governmental Relations Subcommittee, *Permitting Bataan Death March Prisoners to Sue in U.S. Court of Claims*, hearing on H.R. 3188, 98th Cong., 2nd sess., June 14, 1984 (Washington: GPO, 1984), pp. 25-27.

The 105th Congress passed P.L. 105-246, the Nazi War Crimes Disclosure Act which established a Nazi War Criminal Records Interagency Working Group (IWG) with a 3-year term to review and declassify any records which pertained to any person who "... ordered, incited, assisted, or otherwise participated in the persecution of any person because of race, religion, national origin, or political opinion." Although the main focus of this law was Nazi Germany, it also applied to "any government that was an ally of the Nazi Government of Germany."¹¹⁵ In conformance with P.L. 105-246, the President issued Executive Order 13110 of January 11, 1999, which established the IWG. According to a recent account, the IWG has declassified some 1.5 million pages of records dealing with Nazi war crimes, and now the IWG is initiating a second phase, examining records related to Japanese war crimes.¹¹⁶

Action in the 106th Congress

Legislation. A number of bills and resolutions dealing with compensation for or apologies to POWs, their search for records, or court suits by POWs who were forced to perform labor by Japanese companies in World War II were introduced in 1999-2000. The two bills that passed were the following:

- ! S. 1902 and its companion bill, H.R. 3561, which proposed setting up a temporary interagency working group to search classified and other records of the Japanese Imperial Army held by the United States relating to any person who "ordered, incited, assisted or otherwise participated in the experimentation and persecution of any person because of race, religion, national origin, or political option [sic] during the period beginning September 18, 1931, and ending on December 31, 1948" and releasing those that do not compromise national security. This bill would also apply to any WWII allies of Japan. Although no floor action occurred on S. 1902, a similar but slightly more restrictive provision renaming the existing Nazi War Criminal Records Interagency Working Group (IWG) as the Nazi War Crimes and Japanese Imperial Government Records Interagency Working Group¹¹⁷ and extending the life of the IWG through the end of December 2003 and directing it to search out, recommend for declassification, and make public all appropriate classified Japanese Imperial Government records concerning medical experimentation or persecution was inserted into H.R. 5630, the Intelligence Authorization Act for Fiscal Year 2001, which became P.L. 106-567.¹¹⁸

¹¹⁵ See Section 3(a)(1) and 3(a)(1)(D) of the Act.

¹¹⁶ National Coordinating Committee for the Promotion of History, *NCC Washington Update*, vol. 6, no. 21, June 22, 2000, at [<http://www2.h-net.msu.edu/~ncc/>].

¹¹⁷ The IWG has an informative Web site at [<http://www.nara.gov/iwg/>].

¹¹⁸ "Bill Could Hamper Investigation into U.S. Knowledge of Japanese Atrocities; Congress: Plans to Extend an Inquiry into the Intelligence Community's WWII Dealings Have Hit a Roadblock, But Historians Vow To Continue Working," *Los Angeles Times*, (continued...)

- ! Late in the second session of the 106th Congress, the House and Senate agreed to S.Con.Res. 158, which although it does not have the force of law, expressed the sense of Congress that

... it is in the interest of justice and fairness that the United States, through the Secretary of State or other appropriate officials, put forth its best efforts to facilitate discussions designed to resolve all issues between former members of the Armed Forces of the United States who were prisoners of war forced into slave labor for the benefit of Japanese companies during World War II and the private Japanese companies who profited from their slave labor.¹¹⁹

Hearings. The Senate Judiciary Committee held a hearing on June 28, 2000, on POW survivors of the Bataan Death March in which several POWs described their experiences. The POWs reported being shipped to Japan on ships whose lethal conditions earned them the name “Hell Ships,” and then of having to work in mines, steel mills, and elsewhere for Japanese companies. The POWs described being starved, beaten by company employees, and forced to do hard manual labor for companies including Nippon Steel Corporation, Mitsui Mining, and Mitsubishi Mining.¹²⁰

Also discussed at this hearing was the Statement of Interest of the United States on Plaintiffs’ Motion to Remand filed by the Justice Department in the case of *Heimbuch vs. Ishihara Sangyo Kaisha* recently filed in the United States District Court for the Northern District of California. According to David Ogden, acting assistant attorney general for the Civil Division of the Department of Justice, the judge asked:

... whether federal law governs any claims by American soldiers captured and imprisoned by Japan during World War II. Where such claims are directed to private companies, private Japanese companies, for whom such soldiers were forced to work as slaves. And, whether removal of such claims from state court to federal court is proper.

Mr. Ogden stated that in its Statement of Interest the Department of Justice “... expressed the position that such suits were governed by federal law and should be heard in federal court.” Next, Ronald Bettauer, State Department deputy legal advisor, testified that the Multilateral Peace Treaty with Japan barred any suits by U.S. citizens against private Japanese companies. Mr. Bettauer also discussed the

¹¹⁸ (...continued)

Oct. 26, 2000, p. A22.

¹¹⁹ On June 17, 2001, although stating that “... the 1951 treaty did deal with these claims.” Secretary of State Colin Powell said that he was going to look again at U.S. POWs claims for compensation for forced labor before his meeting with Japanese Foreign Minister Macaca Tenneco, *Agency France Press*, June 17, 2001 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹²⁰ U.S. Congress, Senate, Judiciary Committee, *Former U.S. World War II POW's: A Struggle for Justice*, hearings, 106th Cong., 2nd sess., June 28, 2000, S.Hrg. 106-585, serial no. J-106-94.

legislative history of the Treaty and asserted that the Senate indeed meant to cut off the possibility of such suits when it agreed to the treaty.¹²¹ Subsequently, complaints from POWs reportedly helped prompt S.Con.Res. 158 (above) that called for the Administration to facilitate discussions between POWs and Japanese companies on the issue of their claims.¹²²

Action in the 107th Congress

! H. R. 963 was introduced on March 8, 2001; it proposed a payment of \$4 per day plus interest for each day a survivor of the Bataan Death March was held by the Japanese. Referred to the House Armed Services Subcommittee on Military Personnel, and executive comment from the Department of Defense was requested. No further action was taken.

! H.R. 1198, introduced on March 22, 2001, and a similar bill, S. 1154, introduced June 29, 2001, would:

—Direct U.S. federal courts *not* to interpret Article 14(b) of the Treaty of Peace with Japan as a waiver of claims which would prevent U.S. POWs from pursuing forced labor suits against Japanese individuals or private corporations.

—Require that the applicable State statute of limitations apply to any such suit.

—Insure that article 26 of the Peace Treaty with Japan, which stated that if any war claims settlement by Japan with another country was more beneficial than the terms extended to the United States that those more beneficial terms would apply to the United States, should apply to forced labor suits by United States POWs.

—Provide that the Secretary of Veterans Affairs may secure directly from any department or agency of the United States government information relating to any chemical or biological tests conducted by Japan on members of the United States Armed Forces held as POWs in WWII and that such material should be provided to the individual concerned to the extent provided by law. Split referral of H.R. 1198 to House committees on International Relations, Judiciary, Government Reform. Referral of S. 1154 to Senate Judiciary Committee. Although a subcommittee hearing was held, no further action was taken.

¹²¹ Ibid.

¹²² “Former POWs Blast Federal Opposition to Lawsuits Against Japanese Companies,” *Associated Press*, June 28, 2000 (online). Available through NEXIS Library: NEWS File: CURNWS.

- ! Both the House and Senate versions of H.R. 2500, the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002, had amendments which would have prohibited the use of any funds, appropriated by the Act for the Departments of Justice or State, from being used for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as slave or forced labor. The conference committee deleted this provision, stating that while “The conferees strongly agree that the extraordinary suffering and injury of our former prisoners of war deserve further recognition, and acknowledge the need for such additional consideration” they understood that “... the Administration strongly opposes this language, and is concerned that the inclusion of such language in the Act would be detrimental to the ongoing effort to enlist multilateral support for the campaign against terrorism.”¹²³
- ! H.R. 2835, introduced September 5, 2001, as well as S. 1416 and S. 1419 have similar language which proposes paying \$20,000 to each veteran, civilian, or contractor employee who served in/with U.S. combat forces in WWII, was captured and held prisoner by Japan, and was required to perform slave labor by the Japanese government or a Japanese corporation. Split referral to House Ways and Means, Judiciary, and Veterans Affairs Committees. No further action was taken.
- ! S. 1272, introduced July 31, 2001, would assist veterans who were treated as slave laborers while being held by Japan during WWII by requiring federal courts trying actions brought by such persons which are pending in federal court or are removed to a federal court to apply the applicable statute of limitations of the state in which the action was brought. Referred to Senate Veterans Affairs Committee and discharged, then referred to Senate Judiciary Committee. No further action was taken.
- ! S. 1302, introduced August 2, 2001, would authorize payment of a gratuity of \$20,000 tax free to members of the Armed Forces and civilian employees of the United States or their surviving spouses for slave labor performed for Japan during World War II. Referred to Veterans Affairs Committee. No further action was taken.
- ! S. 1438, the National Defense Authorization Act for Fiscal Year 2002 which became PL 107-107. The Senate bill had a provision

¹²³ U.S. Congress, House, *Making Appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies for the Fiscal Year Ending September 30, 2002, and for Other Purposes*, conference report to accompany H.R. 2500, 107th Cong., 1st sess., H. Rept 107-278 (Washington: GPO, 2001), p. 171.

(Section 1064) authorizing payment of a \$20,000 gratuity to a veteran or civilian internee who served in or with the U.S. combat forces in WWII, was captured and held as a POW by Japan and was required to perform slave labor for Japan. The House bill, H.R. 2586, contained no similar provision. The conference committee dropped this provision.

Efforts to Obtain More Compensation — Legal

Another approach is being pursued by a group of Allied military POWs and civilian internees who have filed several law suits seeking reparations from Japan in Japanese courts. To date, none of these suits has resulted in a victory for the claimants, with the Japanese courts citing the Article 14(b) peace treaty waiver as barring any further compensation to POWs by Japan.¹²⁴ According to a *Los Angeles Times* article, Japanese officials point to a 1993 study by the Japanese National Diet Library showing that Japan has paid out more than \$27 billion in war compensation to some 27 countries under the terms of the 1951 Treaty and state-to-state settlements.¹²⁵ (For further information, see also CRS Report 91-216, *Japan's WWII Reparations: A Factsheet*.) However, with regard to U.S. POWs and internees, in a recent federal district court filing, the Department of Justice reportedly said that after WWII the United States seized \$90 million in Japanese assets and that \$20 million of this money was used to pay for war claims of U.S. POWs and internees.¹²⁶ The German government, on the other hand, as of January 1, 1998, had paid some \$60 billion in WWII reparations, according to data reportedly from the Germany Ministry of Finance cited in a recent conference on Holocaust-Era Assets.¹²⁷ Germany recently acknowledged responsibility for its treatment of some U.S. civilian internees who were sent to recognized Nazi concentration camps. As noted above, the U.S. Treasury received \$18.5 million from Germany and reportedly distributed it to 235 eligible survivors.¹²⁸

¹²⁴ "Japanese Court Rejects WWII Lawsuits," *National Law Journal*, Dec. 14, 1998, p. A11.

¹²⁵ "Japan's War Victims in New Battle; Growing Movement Is Using Lawsuits, Legislation to Bring Attention to Crimes, But Tokyo Feels It has Done Its Part and Some Americans Fear Rekindling of Animosity," *Los Angeles Times*, Aug. 16, 1999, p. A1.

In declaring that it had already paid sufficient compensation, Japanese government spokesmen pointed to the \$27 billion in government-to-government payments that it had already made. This statement apparently referred to a 1993 report in Japanese, titled "Problems Arising From Post War Reparations: Overview," written by Takashi Tsukamoto of the National Diet Library.

¹²⁶ "U.S. Stance on Reparations by Japan Angers Ex-POWs," *Los Angeles Times*, June 28, 2000, part A, part 1, p. 3.

¹²⁷ *Washington Conference on Holocaust-Era Assets*, Nov. 30-Dec. 5, 1998, *Proceedings* (Washington: GPO, 1999). See p. 626 for figure of 102.1 billion Deutsche Marks (DM) paid in compensation through Jan. 1, 1998, with at least another DM24 billion in payments to come.

¹²⁸ These settlement efforts follow on the initial 1995 settlement for Hugo Princz and others.
(continued...)

On July 6, 2000, the German parliament passed a law setting up a \$5-billion claim fund to pay Nazi-era slave and forced laborers, those experimented on, and some other Holocaust-related claims. At the same time, the parliament also passed a separate resolution apologizing to victims "... for that which Germans did to them, ... [in] taking away their rights, displacement, maltreatment and exploitation ..." The resolution also declared that "With the law, an historic moral duty is redeemed in the form of a long overdue humanitarian and financial gesture."¹²⁹

Of our WWII Allies, Canada and, subsequently, the United Kingdom decided to pay their POWs compensation. Canada, having concluded that Japan will not pay compensation, has committed to paying each of some 700 still living veterans and surviving spouses of POWs \$24,000 Canadian (U.S. \$15,600) tax-free as compensation.¹³⁰ These Canadian payments have begun.¹³¹

In early November 2000, the British Ministry of Defense announced a one-time tax-free payment of £10,000 (\$15,000) for payment of what the defense minister called a "debt of honor" to each of the 16,700 individuals, including former members of the armed forces, the merchant navy, or civilians who were POWs of Japan; this figure included over 4,500 widows of POWs.¹³²

In April 2001, the Australian and New Zealand governments announced plans for similar compensation. The Australian government plans payments of AUS\$25,000 (U.S. \$12,750) for each of 2,700 Australian survivors of Japanese POW camps. New Zealand is planning to compensate each of its 150 remaining survivors with a payment of NZ\$30,000 (about U.S.\$12,000).¹³³

¹²⁸ (...continued)

See U.S. Department of State, Office of the Legal Advisor, *The U.S.-Germany Nazi Persecution (Princz) Agreement*, handout, 1999?

See also "Germany Will Pay Victims of Nazis," *Washington Times*, June 22, 1999, p. A13.

For more detail, one can go to the Holocaust Museum Web site at [<http://www.ushmm.org/assets/frg.htm>].

Similar information is also available at the Department of Justice's Foreign Claims Settlement Commission Web site at [<http://www.usdoj.gov/fcsc/>].

¹²⁹ "Germany Passes Nazi Slave Fund," *Associated Press* wire story, July 6, 2000, [<http://www.stiftungsinitiative.de/eindex.html>].

¹³⁰ "Canada to Compensate Veterans Captured by Japan at Hong Kong," *Associated Press* wire story, Dec. 12, 1998 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹³¹ Canada, Receiver General, *Public Accounts of Canada, 1999* (Ottawa: Queen's Printer, 1999), vol. II, part II, "Additional Information and Analyses," pp. 10.20-10.27.

¹³² A news report on this decision also stated that in June 2000 the Isle of Man decided to pay £10,000 to its POWs and mentioned that the Swiss government had given its soldiers who were POWs of the Japanese a payment of £2,000 each in 1955. "Pounds 10,000 Payout to Japan POWs; 'Debt of Honor' Repaid After 50-Year Struggle," *The Guardian* (London), Nov. 8, 2000, p. 12.

¹³³ "Australian, N.Z. POWs Held by Japan to Get Compensation," *Asian Political News*, (continued...)

Attempts to Get Compensation — State

In July 1999, California became the first state to enact a law allowing claimants to file civil suits in state courts for compensation by any survivor of slave labor imposed by Nazi Germany or its allies; this California law also extended the time to file such suits until 2010. On April 12, 2000, two class action suits were filed by former U.S. and foreign POWs in California Superior Court in Orange County against Mitsui & Co., Nippon Steel U.S.A., Inc., Mitsubishi Co., and their subsidiaries alleging torture, beatings, and forced labor.¹³⁴ These suits, which are being appealed, were dismissed in late September 2000 with the judge citing the 1951 Treaty as settling all claims.¹³⁵ As of late April 2001, over 30 class action and individual suits had been filed in California courts.¹³⁶ Since passage of this California law, an additional 10 states are reportedly considering similar bills or resolutions dealing with damage claims and/or apologies from Japan.¹³⁷

Recent court cases had contradictory results. On September 19, 2001, in dismissing seven suits brought by Chinese and Korean slave workers against Japanese companies, including Mitsubishi and Kajima, under this 1999 state law, U.S. District Judge Vaughn R. Walker called the state law unconstitutional because it “infringes on the federal government’s exclusive power over foreign affairs.”¹³⁸

However, in late October 2001, a California State Superior Court judge rejected the positions of the Japanese companies involved and the U.S. State Department that the Treaty of Peace with Japan “Unambiguously precluded these suits,” when he ruled that three suits should go forward; they involved ex-POWs seeking compensation for being made slave laborers for Mitsubishi or Mitsui. In his ruling

¹³³ (...continued)

Apr. 30, 2001 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹³⁴ “Former U.S., Foreign POWs Sue Japan Firms for Forced Labor,” *Japan Policy and Politics*, Apr. 17, 2000 (online). Available through NEXIS Library: NEWS File: CURNWS.

“California Calls on Japan to Apologize for War Crimes,” *Japan Policy and Politics*, Aug. 30, 1999 (online). Available through NEXIS Library: NEWS File: CURNWS.

“Treaty Might Ban POW’s Suit Against Japanese Firms,” *Albuquerque Journal*, Sept. 16, 1999, p. B1.

“WWII Vets Revive Grievances With Japan; U.S. Ambassador Says Claims Over Forced Labor Not Valid Under Peace Treaty,” *Washington Post*, Jan. 19, 2000, p. A17.

¹³⁵ “POWs Who Sued Japanese Firms Likely to Appeal Ruling,” *San Diego Union-Tribune*, Sept. 23, 2000, p. A7.

¹³⁶ “State Is Ground Zero for WWII Lawsuits: California Lets Ex-POWs Take Aim at Japan,” *San Francisco Chronicle*, Apr. 22, 2001, p. A1.

¹³⁷ “U.S. Ex-POWs Intensify Compensation Campaign,” *Kyodo News Service, Japan Economic Newswire*, May 20, 2000 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹³⁸ “Law Allowing Suits by Forced Laborers Voided; Court; A Judge Rules that the State Measure on WWII Redress Violates the Constitution,” *Los Angeles Times*, Sept. 20, 2001, part 2, p. 1.

Judge William F. McDonald said in part, “It is the courts, not the executive branch, that will ultimately determine the meaning or applicability of a treaty.”¹³⁹

Recent developments which might influence the future course of suits against Japanese companies in Japan and perhaps in other countries include the following:

In July 2000 a suit was settled against the Nachi-Fujikoshi Corp. by elderly South Koreans who alleged that they were forced laborers in WWII. While the company did not give the Koreans the apology and acknowledgment of responsibility they were seeking, the company agreed to pay them 30 million yen in “settlement money.” One of the reasons cited for the company’s decision to settle was their knowledge that the plaintiffs were about to join a suit filed in the California courts.¹⁴⁰

Four years ago a suit was filed in Japanese court by Chinese who claimed that during WWII they were taken to Japan and made to perform slave labor for the large multinational Japanese construction and mining corporation, Kajima. However, after 4 years of litigation in which Kajima denied any responsibility, in November 2000 the company, while still saying it admitted no responsibility, offered to pay compensation of \$4.6 million dollars to the few remaining survivors and the relatives of those who died. This is the first time a suit filed by Chinese slave laborers in the Japanese courts was successful.¹⁴¹

According to a *New York Times* article,¹⁴² another development is the increasing willingness of Japanese courts to hear testimony about Japanese atrocities rather than dismissing the case at the beginning. The *New York Times* cites the ongoing testimony of Yoshio Shinozuka, a member of Unit 731, and other Unit 731 members

¹³⁹ “Former POWs Win Legal Victory in California State Court; ‘The Court Looked at Our Cases and Told the Japanese Companies and the Administration That Their Excuses Won’t Work Anymore,’” *PR Newswire*, Oct. 25, 2001 (online). Available through NEXIS Library: NEWS File: CURNWS.

¹⁴⁰ “Forced Labor Settlement Set Precedent Fujikoshi, Plaintiffs Agrees on 30 Mil. Yen At Supreme Court,” *The Daily Yomiuri* (Tokyo), July 19, 2000. p. 3.

¹⁴¹ “Fund for Wartime Slaves Set Up in Japan,” *New York Times*, Nov. 30, 2000, p. A14.

¹⁴² “Japanese Veteran Testifies in War Atrocity Suit,” *New York Times*, Dec. 21, 2000, p. A3.

In addition, two recently released scholarly books continue the reevaluation of Japan’s alleged WWII atrocities and relations between the United States and Japan immediately after the war that could have an impact on the issue of compensation for U.S. POWs. The first work, a very heavily researched book by Herbert P. Bix, *Hirohito and the Making of Modern Japan* (New York: Harper Collins, 2000), alleges that Emperor Hirohito was a full and active participant in the planning and prosecution of the war.

The other book, by John W. Dower, *Embracing Defeat: Japan in the Wake of World War II* (New York: W.W. Norton, 1999), alleges that U.S. occupation authorities deliberately portrayed the Emperor as having little or no power or responsibility for WWII, so that they did not have to try him as a war criminal. This way, he says, they could use the Emperor as a powerful pacifying and unifying force to make the occupation more acceptable to the Japanese. This book also touches on occupation authorities’ dealings with Unit 731 personnel.

in a court case brought by Chinese victims of Unit 731 in Tokyo district court. This is apparently the first time Unit 731 members have been allowed to testify about Unit 731's alleged war crimes in a Japanese court. According to news accounts, on August 27, 2002, the Japanese district court acknowledged for the first time that Japan had developed and used biological weapons in China both before and during WWII. A *Christian Science Monitor* article¹⁴³ stated that it was only 10 years ago that the Japanese government acknowledged the existence of Unit 731 and that it still refuses to comment on Unit 731's activities. Presiding Judge Koji Iwata of the Tokyo district court stated, "The evidence shows that Japanese troops, including Unit 731 and others, used bacteriological weapons on the orders of the Imperial Army's headquarters, and that many local residents died." Having said that, however, Judge Iwata dismissed the claims by 180 Chinese plaintiffs in the five-year long case, stating that "no international law that enabled individuals to sue for war damages had been established at the time or has been now." The plaintiffs were seeking an apology and \$83,000 each in damages for the suffering caused by Unit 731.¹⁴⁴

Other developments noted in the *New York Times* article were the agreement by Mitsubishi Heavy Industries to meet with 50 plaintiffs in two slave labor suits brought by WWII captive foreign workers who allege they were used as slave laborers by Mitsubishi and the recent war tribunal convened in Tokyo by various advocacy groups which highlighted the role of Japan's wartime leaders, including Emperor Hirohito, in the sexual slavery of the "comfort women."¹⁴⁵

On April 26, 2002, in the first acknowledgment by a Japanese court of the responsibility of Japanese firms for liability for wartime forced labor, the Fukuoka District Court ordered Mitsui Mining Co. to pay 165 million yen to compensate 15 Chinese men who had been forced to work at Mitsui coal mines in Fukuoka prefecture during WWII.¹⁴⁶

The Stikker-Yoshida Letter

On September 4, 2001, an op-ed article appeared in the *New York Times* entitled *Recovering Japan's Wartime Past—and Ours*, by Steven C. Clemmons, executive vice president of the New America Foundation. In discussing the issue of reparations

¹⁴³ "Belatedly, Japan Admits Use of Germ Warfare," *Christian Science Monitor*, August 28, 2002, p. 7.

¹⁴⁴ "Tokyo Court Confirms Japan Used Germ Warfare in China," *Washington Post*, August 28, 2002, p. A15.

¹⁴⁵ "Asian Sex Slaves Hope New Law Will Aid in Fight for Redress," *San Francisco Chronicle*, July 1, 2001, p. A8. The Justice Department asserted, in a suit brought in U.S. courts by "comfort women," the U.S. government's position that Japan, as a foreign nation, has immunity to such suits in U.S. courts and that relief for the plaintiffs would have serious repercussions for U.S. foreign policy toward Japan.

¹⁴⁶ "Court Awards 165 Mil. Yen to Chinese Forced Laborers," *Kyodo News Service*, *Japan Economic Newswire*, Apr. 26, 2002 (online). Available through NEXIS Library: NEWS File: CURNWS.

by Japan, the 1951 Treaty, and John Foster Dulles's efforts as chief of U.S. negotiations, the author referred to correspondence between Japanese Prime Minister Shigeru Yoshida and Dirk Stikker, The Netherlands Minister of Foreign Affairs, which was only declassified in April 2000. According to Clemmons, Dulles was having a hard time persuading the Dutch to sign the 1951 Treaty because they were reluctant to waive the rights of their citizens to sue Japan. The letter from Yoshida contained the following sentence: "... the Government of Japan does not consider that the Government of the Netherlands by signing the Treaty has itself expropriated the private claims of its nationals so that, as a consequence thereof, after the Treaty comes into force these claims would be non-existent."¹⁴⁷ However, the next paragraph of the letter that Clemmons cites, which was not quoted in the New York Times op-ed, states:

However, the Japanese government points out that, under the Treaty, Allied nationals will not be able to obtain satisfaction regarding such claims, although, as the Netherlands government suggests, there are certain types of private claims by Allied nationals which the Japanese government might wish voluntarily to deal with.

The Clemmons article goes on to refer to language in the Treaty which states, "... should Japan make a peace settlement or war claims settlement with any State granting that State greater advantages than those provided by the present Treaty, those same advantages shall be extended to the parties to the present Treaty."

According to Clemmons, the Dutch pursued a claim against Japan on behalf of private citizens, which netted them \$10 million. Also mentioned were a Japanese settlement with Burma "... that provided reparations, services and investments amounting, over 10 years, to \$250 million," and an agreement with Switzerland that provided "... compensation for maltreatment, personal injury and loss arising from acts illegal under the rules of war."¹⁴⁸ Clemmons also argued that "... the Stikker-Yoshida letters, and the Burmese and Swiss agreements could all be used to make Japan, under article 26 of the San Francisco Treaty, offer similar terms to the treaty's 47 signatories."¹⁴⁹

When Lester Tenny, a former POW, sued Mitsui Corp for compensation for his slave labor in federal court in California in 2000, a Department of Justice official

¹⁴⁷ Stikker to Yoshida, Sept. 7, 1951. National Archives and Records Administration, Record Group 59, *General Records of the Department of State, Central Decimal File 1955-1959, 294.1141/9-459 through 294.5641/4-1955*.

¹⁴⁸ See also the text of a confidential 1955 interoffice memorandum discussing the "Stikker-Yoshida arrangements," from a Mr. Fraleigh at the American Embassy in Tokyo, saying "... that it would be a little awkward to explain to American civilians who were interned by the Japanese in the Far East why they should receive no compensation if the Dutch government succeeds in getting some compensation from Japan for Dutch civilian internees." "You will recall we had a lot of explaining to do to American prisoners of war about their being cut out of the Article 16 fund." This document is discussed in Holmes, *Unjust Enrichment*, on p. 139, and reproduced on p. 180.

¹⁴⁹ "Recovering Japan's Wartime Past—and Ours," op-ed., *New York Times*, Sept. 4, 2001, p. A27.

testified in court that it was the government's position that the 1951 Treaty cut off his right to sue, and his suit was dismissed. According to a recent newspaper account, when Mr. Tenny's lawyer told a State Department official of the documents found by Mr. Clemmons, the State Department official said that these documents had already been considered and would not change the State Department's interpretation of the Treaty.¹⁵⁰

Dwindling Numbers of POWS and Internees

Differing calculations have been given for the number of POWs and internees held by Germany and Japan, and differing numbers have been estimated for the number of surviving POWs and internees today as noted in the preceding pages. It is evident, however, that the number of POWs and internees who might be eligible for compensation is small and rapidly dwindling.

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¹⁵⁰ "Ex-POWs Demand Their V-J Day; 4 Former GIS Seek to Sue Japanese for Slave Labor," *Chicago Tribune*, Sept. 8, 2001, p. 8.

"Suit Seeks \$1 Trillion from Japan for War; Bataan Survivor, Army Nurse Seek Class Action Status," *Chicago Tribune*, Sept. 6, 2001, p. 10. A class action suit, based on these newly uncovered documents, asking for payment of \$1 trillion in reparations from Japan has reportedly been filed in federal court in Chicago.

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Japan-U.S. Relations: Issues for Congress

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Japan-U.S. Relations: Issues for Congress

SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. Alliance cooperation has deepened significantly since September 11, 2001, despite disappointment at Japan's failure thus far to overcome economic stagnation that has lasted more than a decade, including recent criticism of Japan for actively intervening to maintain a yen-dollar ration that helps maintain a large Japanese trade surplus.

U.S.-Japan relations concern Members and Committees with responsibilities or interests in trade and international finance and economics, U.S. foreign policy, ballistic missile defense (BMD), and regional security. The latter include North Korea's nuclear and missile proliferation and China's potential emergence as the dominant regional military power. Congress has been particularly interested in issues concerning U.S. military bases in Japan, which have played a key role in supporting the military campaign in Afghanistan and the military buildup near Iraq.

In October 2001 the Koizumi government gained parliamentary passage of legislation permitting the despatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan despite strong opposition from both within and outside of the ruling coalition. Because of Japan's U.S.-imposed "Peace Constitution, Japanese ships and aircraft have been restricted to non-combat support. A small Japanese flotilla which has remained on station since late 2001 has supplied the majority of the fuel needs of U.S. and British warships. Japan also has been

outspoken in favor of the U.S. position on Iraq and has pledged non-combat military and reconstruction support. A planned deployment of Japanese peacekeepers has been held up by domestic political considerations and continuing insecurity in Iraq.

Japan's position toward North Korea generally has been hardening in recent months, primarily due to Pyongyang's nuclear and ballistic missile programs and to North Korea's admission that it kidnapped Japanese citizens in the 1970s and 1980s. Tokyo appears to be more willing than previously to support coercive diplomatic measures against North Korea, including economic sanctions.

Due to its own concerns about North Korea and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases cooperation with the United States under revised defense cooperation guidelines agreed to in September 1997. Japan is participating in joint research and development of a U.S. missile defense capability, but has not made an acquisition decision.

The traditionally large U.S. trade deficit with Japan has been a perennial source of friction. The deficit reached a record \$81.3 billion in 2000, but fell to \$69 billion in 2001 and \$70 billion in 2002 because of the moribund Japanese economy and the current U.S. economic slowdown.

In general, the Bush Administration has paid somewhat less attention to the trade deficit than did the Clinton Administration, while calling on Tokyo to deal more vigorously with its huge problem of bad bank loans, which are a drag on Japan's economy, and to follow through on structural reforms.

MOST RECENT DEVELOPMENTS

Reports in mid-September 2003 indicate that the Bush Administration is becoming impatient with Japan's failure to follow through with a commitment to deploy peacekeepers to Iraq. In the face of national parliamentary elections planned in November 2003, and ongoing insecurity in Iraq, the government of Prime Minister Junichiro Koizumi reportedly has scrapped a plan to have peacekeepers in place by November or December 2003. Although in September Koizumi was re-elected as president of the ruling Liberal Democratic Party (LDP) — hence to continue on as premier — the proposed deployment of Japanese Self-Defense Forces (SDF) is unpopular within the public and with some powerful LDP figures. Japan is expected to send a military fact-finding team to Iraq in late September 2003.

During a visit to Tokyo and Beijing in late August and early September 2003, U.S. Treasury Secretary John Snow pointedly criticized China for maintaining what is widely viewed as an artificially low currency exchange rate, but did not criticize Japan directly for its own efforts to maintain a low yen-dollar exchange rate. Some reports suggest that this difference in approaches to Beijing and Tokyo can be attributed to appreciation for Japan's strong diplomatic support for the war in Iraq. Some reports suggest this difference will be rectified when President Bush makes a planned October 17 visit to Tokyo.

BACKGROUND AND ANALYSIS

Role of Congress in U.S.-Japan Relations

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

As of early 2003 several high profile policy issues were of particular interest to Congress, including dealing with the confrontation over North Korea's nuclear and missile programs, anti-terrorism cooperation, Japan's support for U.S. policy concerning Afghanistan and Iraq, and cooperation on missile defense. Congress also has been active recently in pushing the Administration to employ anti-dumping trade penalties against steel imports from Japan, and in supporting efforts by survivors of Japan's World War II slave labor camps to gain relief through the U.S. courts by opposing a long-standing U.S. policy that gives primacy to the terms of the 1951 U.S.-Japan Peace Treaty.

U.S.-Japan Cooperation and Interdependence

(This section was written by Richard Cronin and Mark Manyin)

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

U.S.-Japan Relations Under the George W. Bush Administration. Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan's positive and timely response under Prime Minister Koizumi's leadership has fostered closer security cooperation and coordination.

Historically, U.S.-Japan relations have been strained periodically by differences over trade and economic issues, and, less often, over foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts — with mixed results — to negotiate trade agreements with numerical targets. President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi that focused on alliance relations, cooperation against terrorism, and Japan's continuing economic slump. He also addressed a joint session of the Japanese Diet (parliament). The President publicly praised Prime Minister Koizumi's economic reform program, but reportedly spoke bluntly in private about his disappointment with progress.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The Koizumi government strongly condemned the terrorist attacks of September 11, 2001, and initiated a series of unprecedented measures to protect American facilities in Japan and provide non-lethal logistical support to U.S. military operations against Al Qaeda and the Taliban in Afghanistan. The latter mainly took the form at-sea replenishment of fuel oil and water to U.S., British, French, and other allied warships operating in the Indian, and logistical airlift. A small flotilla of transport ships, oilers, and destroyers has provided most of the fuel used by U.S. and allied naval forces in the Indian Ocean since the first deployment in November 2001. Japanese non-combat logistical support to U.S. and allied warships was extended through the Iraq war and continued as of early July 2003.

Japan's ability to "show the flag" in its first such deployments since the end of World War II was made possible by the adoption by the Japanese Diet (parliament) at the end of October 2001 of three related bills anti-terrorism bills. One law, the Anti-Terrorism Special Measures Law, gave unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to provide "rear area" support to U.S. forces operating in the Indian Ocean. Permitted support includes intelligence sharing, medical care, and the provision of fuel and water and nonlethal military supplies. The restriction of the authority to nonlethal supplies was a domestic political compromise aimed at reconciling Japan's "no-war" constitution with the government's desire to meet the Bush Administration's expectations of material support. Despite these limits, several of the measures have been seen by critics as going beyond past interpretations of the constitutional ban on "collective defense" activities. In late 2003 a district court dismissed the first legal challenge to the constitutionality of the Indian Ocean deployments.

Support for U.S. Policy Towards Iraq. While strongly preferring a clear United Nations role in resolving the U.S./British confrontation with Iraq, Japan nonetheless gave almost unqualified support to the Bush Administration's position. During an open debate in the U.N. Security Council on February 18, Japan was one of only two out of 27 participating countries, the other being Australia, to support the U.S. contention that even if the U.N. inspections were strengthened and expanded, they were unlikely to lead to the elimination of Iraq's weapons of mass destruction unless Iraq fundamentally changed its current passive cooperation. Koizumi and Foreign Minister Yoriko Kawaguchi called the leaders of several undecided Security Council Members to try to persuade them to support the U.S. position.

The despatch of an Aegis destroyer to the Indian Ocean and the extension of the deployment of Japanese ships there was widely interpreted as another indication of Japanese support. Japan anticipates playing a role in the reconstruction of Iraq, committing over \$200 million and sending a small team of civilian experts to assist the U.S. Department of Defense Office of Reconstruction and Humanitarian Assistance (ORHA). Currently, the government is debating whether to ask the Japanese Diet to authorize the despatch of troops to Iraq or its neighbors, primarily to provide logistical support. Japan has been reluctant to support a U.S. proposal to write off the foreign debts Iraq accumulated under the Saddam Hussein regime, preferring instead a temporary freeze and/or the partial suspension of debts owed.

On July 26, 2003, following a dramatic brawl in a committee room the previous night over a procedural dispute, the Upper House of the Japanese Diet (Parliament) gave final approval to legislation allowing Japan to send non-combat peacekeepers and humanitarian aid workers to Iraq. The controversial Special Measures Law on Humanitarian and Reconstruction Assistance for Iraq passed by a vote of 136-102. On July 28, President Bush called Prime Minister Koizumi to welcome the passage of the law, which could eventually lead to the deployment of as many as 1,000 Japanese military and civilian peacekeepers.

Japanese officials and political leaders remain locked in debate about how to insure that Japanese troops and civilians are not deployed in areas of ongoing combat. Prime Minister Koizumi reportedly opposes any decision until after the September 20, 2003, election for the Presidency of the ruling Liberal Democratic Party (LDP) — his victory in which would be tantamount to his reelection as Prime Minister — and an expected general election for the Lower House shortly thereafter. Reportedly, Koizumi has ordered an indefinite delay of the departure of an official survey team to Iraq, previously scheduled for August 13, 2003, that

was to size up the situation and make recommendations regarding Japan's role. Analysts expect that the decision could delay the arrival of any Japanese forces until December 2003.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China's rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate. Japan's own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan's concerns about China's rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan's past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy. Recently, Tokyo and Beijing also have engaged in trade confrontation.

Converging Korean Peninsula Priorities? Japan's role is critical in the current crisis over North Korea's nuclear weapons programs for a number of reasons. Most importantly, Japan has told North Korea it will provide a large-scale economic aid package to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion, an enormous sum for the cash-starved North Korean economy. Normalization of Japan-North Korean relations was one of Pyongyang's demands during the trilateral U.S.-North Korea-China talks held in April 2003. Currently, Japan is a significant source of North Korea's foreign exchange, by virtue of the Japanese market being a major destination for the North Korean government's suspected drug-running operations, and of remittances from Korean permanent residents in Japan. Additionally, the United States has long cited Pyongyang's harboring of Japanese Red Army terrorists — who face charges in Japan of hijacking a plane in 1970 — as a reason for North Korea's inclusion on the U.S. terrorism list, which by law prohibits North Korea from receiving many forms of U.S. economic assistance and trading rights.

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang that momentarily restarted normalization talks between the two countries, which have not established official relations since North Korea was founded in 1948. Kim pledged conditionally to unilaterally extend his country's moratorium on missile testing beyond 2003 and issued a vague promise to comply with international agreements related to nuclear issues. For his part, Koizumi apologized for its colonization of the Korean Peninsula from 1910-1945 and offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965.

The normalization talks and parallel security talks quickly stalled, however, due to two developments since the summit: North Korea's October 2002 admission to U.S. officials that it has a secret nuclear weapons program based on the process of uranium enrichment; and outrage in Japan at Kim Jong-il's admission to Koizumi that North Korea had kidnapped

13 Japanese in the 1970s and 1980s, eight of whom had died. In October, the five surviving abductees traveled to Japan for a visit, but their family members were not allowed to leave North Korea. The Japanese government has not allowed the five visitors to return to the DPRK and has demanded that the family members be allowed to travel to Japan. Prime Minister Koizumi has said normalization talks will not continue unless Pyongyang begins dismantling its uranium program and is more cooperative on the abduction issue. In mid-November, Japan voted with the United States to suspend shipments of heavy fuel oil to North Korea. The oil was being provided under a 1994 U.S.-North Korean agreement in which Pyongyang agreed to halt its nuclear weapons program.

Koizumi's trip to Pyongyang was a significant departure from Tokyo's recent stance toward North Korea and initially had the potential to put Japan at odds with the Bush Administration's hard-line policy. For years, Japanese policymakers sought to move slowly and deliberately on normalizing relations with North Korea, due to North Korea's launching of a long-range Taepodong Missile over Japan in August 1998, Pyongyang's development and deployment of medium-range Nodong missiles capable of reaching Japan, new revelations about the abductions of Japanese citizens by North Korean agents in the 1970s and 1980s, and incursions by North Korean espionage and drug-running ships into Japanese waters. This cautious approach often created tension between Tokyo and the Clinton Administration, which, along with South Korea's Kim Dae Jung, had been attempting to engage with North Korea. Japanese officials and commentators from across the political spectrum generally welcomed the Bush Administration's policy of using public accusations and warnings to pressure North Korea to allow international inspections of its nuclear facilities and agree to verifiable curbs to its missile program, including missile exports. (For more on U.S. policy toward North Korea, see CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

Japan has supported most of the concrete steps the U.S. has taken since the revelations about North Korea's uranium nuclear program were made public in October 2002. However, most Japanese leaders have equivocated on the subject of taking more coercive measures against North Korea such as economic sanctions, preferring a negotiated solution to the crisis. In April and May 2003, however, in the aftermath of the trilateral U.S.-North Korea-China meeting in Beijing, Japanese policy seems to have hardened. In Beijing, the Bush Administration asserted that Japan should be included in future talks and that North Korea should resolve the abduction issue with Japan. The Japanese government has toughened enforcement of its controls on the export of potential dual-use items to North Korea and has announced a new interpretation of domestic foreign exchange laws that would enable Tokyo to more easily cut off bilateral trade and shut off the flow of remittances from ethnic Koreans to their relatives in North Korea. Specifically, Japan has moved away from its traditional position that sanctions against North Korea would require United Nations Security Council approval and is now taking the position that Japan could impose in cooperation with the United States, even in the absence of specific U.N. approval. Remittances to North Korea are thought to have declined significantly since the early 1990s, they still are estimated to total several millions of dollars a year. Japan is North Korea's second largest trading partner, after China. Two-way trade in 2001 was \$470 million.

On May 22 and 23, President Bush and Prime Minister Junichiro Koizumi held a summit meeting at the President's ranch near Crawford, Texas. The invitation to meet the President at Crawford was widely viewed as a gesture of appreciation for Japan's strong

support of U.S. policy on Iraq. At a joint press conference on May 23, President Bush and Prime Minister Koizumi both declared that they shared a unity of view regarding the need for North Korea to promptly, completely, and verifiably dismantle its nuclear program. Koizumi declared that Japan would take “tougher measures” if North Korea escalated the situation, and also that Tokyo, in any event, would “crack down more vigorously on illegal activities” involving North Korea or ethnic Korean supporters in Japan. Both leaders cited the need for a peaceful solution to the nuclear issue based via multilateral “dialogue and pressure.” President Bush said that Japan and South Korea should be included if the talks recently hosted by China were resumed. The President also expressed strong backing for Japan’s insistence on a full accounting of the fate of Japanese citizens kidnapped by North Korea.

Claims of Former World War II POWs and Civilian Internees. Congress has also indicated intense interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan’s obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

Two conflicting court decisions in California in early 2003 have further clouded the prospects for the victims’ claims. A January 2003 decision by a California appeals court ruled that the claim against a Japanese company by a Korean-American who was a former POW could go forward. A week afterwards, a federal appeals court in San Francisco made the opposite determination in a case involving the consolidated claims of several thousand former POWs forced to work in camps run by major Japanese conglomerates. The latter decision upheld the long-standing contention of the State Department that only the Federal Government had the right to “to make and resolve war,” including the resolution of war claims. The core issue is whether the Peace Treaty with Japan relieved only the Japanese government from future claims or whether it covered private companies as well. On April 30, 2003, the California Supreme Court agreed to review the two cases and the pertinent state law, which allows victims of World War II forced labor to sue Japanese multinational companies that operate in California.

A number of bills and amendments introduced in the 107th Congress sought to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July

18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). The conference report explains that the provision was dropped because the adamant opposition of the President would have jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable “parliamentary tactic.” (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Tokyo ratified on June 4, 2002, Japan is obligated to reduce its emissions 6% below its 1990 levels by 2010. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol.

Security Issues

(This section was written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory in return for U.S. support to its security. In recent years Japan has edged closer to a more independent self-defense posture. A year-long study by a foreign policy advisory body reported its findings to Prime Minister Koizumi on November 28, 2002. The report is said to stress the need for a more comprehensive effort to deal with an emerging military and regional influence threat from China, for crafting a policy towards the United States which is compatible with and complements U.S. policy but also emphasizes Japan’s own foreign and security perspectives and requirements — including Japan’s policy towards North Korea.

Issue of U.S. Bases on Okinawa. Since September 1995, the U.S. military presence on Okinawa has been plagued by controversy over crimes committed by U.S. military personnel, especially U.S. Marines, and by plans to re-shape the structure of military bases on the island. There have been widespread calls on Okinawa for a re-negotiation of the Japan-U.S. Status of Forces Agreement (SOFA) and a reduction in U.S. troop strength. The U.S. and Japanese governments have opposed revising the SOFA; but in 2001, the United States agreed to turn over American military personnel suspected of specific grievous crimes to Japanese authorities prior to formal indictments being issued by Japanese courts. In negotiations in 2003, the U.S. military has sought a greater U.S. presence when these U.S.

military personnel are questioned by Japanese officials prior to indictment. Japan reportedly has offered to allow U.S. military police officers to be present during interrogations but wants an expansion of the types of crimes under which U.S. servicemen would be turned over to Japanese authorities prior to indictment.

A U.S.-Japanese Special Action Committee on Okinawa (SACO) reached an agreement in 1996 under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases' land) over seven years, but U.S. troop numbers will remain the same — about 29,000. Implementation of the agreement has been stalled by the issue of relocation of the U.S. Marine air station at Futenma. A new site, Nago, in northern Okinawa, was announced by the Japanese government in November 1999. However, the Okinawa governor proposes a 15-year time limit on U.S. use of the new facility. The Bush Administration and the Pentagon oppose such a time limit.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops.

Revised Defense Cooperation Guidelines. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in “situations in areas surrounding Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution. Article 9 outlaws war as a “sovereign right” of Japan and prohibits “the right of belligerency.” It provides that “land, sea, and air forces, as well as other war potential will never be maintained.” Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan’s current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense and broader peacekeeping roles, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan’s role in implementing the 1997 defense guidelines, including crises in “areas surrounding Japan.” Escalation of the nuclear crisis with North Korea influenced the passage by the Japanese Diet in May 2003 of three wartime preparedness bills, which specify the powers of the government to mobilize military forces and adopt other emergency measures. The North Korean situation also sparked a debate in Japan over acquiring offensive weaponry that could be used to attack North Korea.

Cooperation on Missile Defense. A six year Japan-U.S. program of cooperative research and development of anti-ballistic missiles began in 1999. Proponents of missile defense justify it based on North Korea’s missile program, but China opposes the program. U.S. military officials reportedly have recommended that Japan adopt a missile defense system that combines the U.S. Patriot Advanced Capability-3 (PAC-3) system and the U.S. Standard Missile-3 system. The Japan Defense Agency reportedly plans to request funds in

the fiscal 2004 budget for the purchase of a missile defense system that combines these systems. The Defense Agency reportedly hopes to begin deploying the missile defense system around major Japanese cities by 2006. (See CRS Report RL31337, *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory in return for U.S. support to its security. In recent years Japan has edged closer to a more independent self-defense posture. A year-long study by a foreign policy advisory body reported its findings to Prime Minister Koizumi on November 28, 2002. The report is said to stress the need for a more comprehensive effort to deal with an emerging military and regional influence threat from China, for crafting a policy towards the United States which is compatible with and complements U.S. policy but also emphasizes Japan's own foreign and security perspectives and requirements — including Japan's policy towards North Korea.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

On July 29, 2002, the Japanese government met with representatives of the Okinawa prefectural government and concerned municipalities and reached consensus on details of a planned dual civil-military facility to replace the Futenma Marine Air Station. The

Japanese government has determined that the facility would be constructed offshore by reclaiming land on coral reefs near Camp Schwab, an existing Marine base, and would be 2,500 meters in length. Left unresolved was the demand by the Okinawa prefectural government and local communities that the use of the base by U.S. forces be restricted to a period of 15 years, a limitation that, as noted above, the U.S. government deems unacceptable.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

Revised Defense Cooperation Guidelines. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in “situations in areas surrounding Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan’s current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan’s role in implementing the 1997 defense guidelines, including crises in “areas surrounding Japan.”

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Korean situation also sparked a debate in Japan over acquiring offensive weaponry that could be used to attack North Korea.

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea's missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. Japan also expressed concern at the decision of Secretary of Defense Donald Rumsfeld to eliminate the distinction between NMD and Theater Missile Defense (TMD), but the Japanese Defense Agency nonetheless has continued to participate in the joint research program. The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control systems designed for the U.S. Navy's Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system. Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability. The Defense Agency reportedly will request funds in the fiscal 2004 budget for to purchase a U.S. missile defense system, possibly the Patriot Advanced Capability-3 (PAC-3) system. The defense agency also has budgeted for two new destroyers equipped with the Aegis radar and fire control system (the Japanese navy has four at present), including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL31337. *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Economic Issues

(This section was written by William Cooper)

Despite Japan's long economic slump, trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

Although Japan remains important economically to the United States, its importance has slid as measured by various indicators. Japan is now the United States's third largest merchandise export market (behind Canada and Mexico) and the fourth largest source for U.S. merchandise imports (behind Canada, Mexico, and China). At one time Japan was the largest source of foreign direct investment in the United States but, as of the end of 2002, it is the fourth largest source (behind the United Kingdom, France, and the Netherlands). It is the fifth largest target for U.S. foreign direct investment abroad as of the end of 2002. The

United States remains Japan's largest export market and second largest source of imports as of the end of 2002.

Because of the significance of the U.S. and Japanese economies, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5%, *declined* 0.5% in 2001, and increased only 0.3% in 2002. During the first quarter of 2003, Japan's GDP increased 0.6% on an annualized basis. Independent analysts remain skeptical of the long-term prospects for the Japanese economy given other indicators showing weakness including declining business investment and an unemployment rate of 5.4% as of May 2003 (the latest data available). (For more information on Japan's economic problems, see CRS Report RL30176, *Japan's "Economic Miracle": What Happened?*)

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors, including the collapse of the investment "bubble" in the early 1990s and ineffective fiscal and monetary policies and structural economic problems, including the continuing problem of non-performing loans held by Japanese banks.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy, but increased moderately to \$70.1 billion in 2002.

Table 1. U.S. Trade with Japan, 1996-2002

(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0
2002	51.4	121.5	-70.1

Source: U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s. basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

On March 5, 2002, President Bush announced that the government would impose higher tariffs on imports of selected steel products after the U.S. International Trade Commission determined under section 201 (safeguards or escape clause trade remedy) that surges in steel imports caused or threatened to cause serious injury to the U.S. domestic steel industry. On March 6, the Japanese government called the decision regrettable. On March 20, Prime Minister Koizumi's government requested formal consultations with the United States through the World Trade Organization (WTO), stating that the U.S. action was not in compliance with WTO rules and that the problems of the U.S. steel industry were due to its lack of international competitiveness and not imports. The Japanese government threatened to impose retaliatory tariffs on U.S. steel exports worth \$5 million by June 18. However, on June 13, the government announced it would delay action. On August 23 the Japanese Foreign Trade Ministry announced that it would not retaliate against U.S. section 201 measures against on steel imports, defusing what was potentially a very contentious issue in U.S.-Japan trade relations. Japanese Foreign Trade Minister Takeo Hiranuma pointed to exclusions of some 40% of Japanese steel exports to the United States from the original section 201 measure as the primary reason for pulling back on retaliation.

Nevertheless, Japan and several other steel exporting countries pursued a case in the WTO's Dispute Settlement Body against the U.S. action. Along with Japan, the EU, Brazil, China, New Zealand, Norway, South Korea, and Switzerland argued that the United States did not follow WTO rules in imposing the safeguard actions, a conclusion the United States strongly denies. On March 26, 2003, the WTO Dispute Panel issued its preliminary decision, ruling against the United States and maintained that determination in its May 2 final decision. On July 11, the Bush Administration announced that it would appeal the decision.

The steel case and other disputes mark a trend in U.S.-Japan trade relations in which the two countries have chosen to address their differences in the WTO rather than bilaterally. Japan, together with other major trading partners, has challenged U.S. trade laws and actions in the WTO. For example, Japan and others challenged the U.S. 1916 Antidumping law and the so-called "Byrd Law" (that allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). In both cases, the WTO ruled in their favor.

Despite the general trend towards resolving issues at the WTO, on July 29, 2003, Japan announced that it would raise tariffs on imported beef from 38.5% to 50.0% effective from August 1, 2003, through March 31, 2004. The increased tariffs are in response to a surge in beef imports. On July 29, U.S. Secretary of Agriculture Ann Veneman called the higher tariffs "unnecessary and unwarranted."

On June 3, 2003, the chairmen and ranking members of the Senate Finance Committee and House Ways and Means Committees sent a joint letter to President Bush, stating that the United States needed to press Japan to open its markets to U.S. exports of flat glass, financial services, autos, and other products. The letter stated: "Although we understand that your recent meetings [in Crawford] with the Prime Minister included discussions on economic issues, we urge you to press Japan to continue to deregulate, reform its banking system, and open its markets to U.S. goods, services, and farm products."

Japan and the United States are strong supporters of the Doha Development Agenda, the latest round of negotiations in the WTO. Yet, the two have taken divergent positions in

some critical areas of the agenda. For example, the United States, Australia, and other major agricultural exporting countries have pressed for the reduction or removal of barriers to agricultural imports and subsidies of agricultural production, a position strongly opposed by Japan and the EU. At the same time, Japan and others have argued that national antidumping laws and actions that member countries have taken should be examined during the DDA, with the possibility of changing them, a position that the United States has opposed.

Japanese Political Developments

(This section was written by Mark Manyin)

Current Situation. Since his unconventional rise to power in April 2001, Prime Minister Junichiro Koizumi has been one of the most popular Japanese rulers in years, notwithstanding the public's gradual disillusionment with Koizumi that has reduced his approval ratings 40-50% range, down from over 80% in mid-2001. The key to Koizumi's relative popularity is his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. As Prime Minister, Koizumi has attempted to seize the machinery of government away from the factions that have long dominated the Liberal Democratic Party (LDP), Japan's dominant political party. Lacking a strong base within the LDP, Koizumi's relative popularity is one of the few weapons he wields against the "old guard" that are strongholds of the "old economy" interests most threatened by Koizumi's agenda. Another factor that has helped keep Koizumi in power is the absence of any politicians in the LDP or in Japan's opposition parties who have the political strength to replace Koizumi in the near future. This was a primary reason the LDP overwhelmingly re-elected Koizumi to a new, three-year term as party president in September 2003. The president of the LDP traditionally serves as Prime Minister.

Koizumi's record on economic reforms generally is judged to be mixed at best. Many analysts attribute this to a combination of a lack of focus and detailed planning by the Prime Minister's Office, and to opposition from vested interests. Koizumi has strongly hinted that he will dissolve the lower house of parliament in the fall and call nationwide parliamentary elections. Because a majority of Japanese appear to disapprove of dispatching SDF forces to Iraq, there is speculation that Koizumi will not deploy them until after a presumptive general election.

In general, Japan's political peculiarities constrain U.S. influence over Japanese policy. Most importantly, the relative weakness of the Japanese prime minister and cabinet often make it difficult to for Japanese leaders to reach and then deliver on controversial agreements with foreign countries. Presently, U.S. options are further limited by the widely-held perception that Koizumi represents the best hope for pushing through economic and security reforms the U.S. has sought. This belief has led the Bush Administration generally to avoid criticizing Koizumi publicly, for fear of diminishing his political effectiveness.

Background — The Political System's Inertia. Despite over a decade of economic stagnation, or negative growth, Japan's political system — indeed, many of Japan's economic policies — have remained fundamentally unchanged. What accounts for this striking inertia? Three features of Japan's political system give vested interests an inordinate amount of power in Japan: the extreme compartmentalization of policy-making;

the factional divisions of the Liberal Democratic Party; and the weakness of the opposition parties. Many of Koizumi's most far-reaching reform proposals actually are attempts to alter the first and second of these characteristics.

The Compartmentalization of Policy-Making. To a striking degree, Japan's policymaking process tends to be heavily compartmentalized. Policy debates typically are confined to sector-specific, self-contained policy arenas that are defined by the jurisdictional boundaries of a specific ministry. Each policy community stretches vertically between bureaucrats, LDP policy experts, interest groups, and academic experts. Unlike in most industrialized societies, each policy arena in Japan is so self-contained that cross-sectoral, horizontal coalitions among interest groups rarely form. One reason for this is that bureaucrats are paramount in most of Japan's policy compartments. Only in matters involving highly politicized industries such as agriculture and security policy have politicians and interest groups become significant players in the policymaking process. Even in these areas, responsibility for carving out the details of policy still rests with the bureaucrats, in part because Japanese politicians often only have a handful of staffers to assist them.

Furthermore, the LDP's policymaking organ, the Policy Affairs Research Council (PARC), itself is segmented into specialist caucuses (often called "tribes" or *zoku*), so that competing interests — such as protectionist farmers and export industries — rarely face off inside the LDP. For this reason, the LDP often finds it difficult to make trade-offs among its various constituencies. The result is often paralysis or incremental changes at the margins of policy. Koizumi has attempted — thus far with limited success — to change this by centralizing more power in the Prime Minister's office, at the expense of the PARC and the bureaucracies.

The Factional Nature of the Liberal Democratic Party. The LDP has been the dominant political force in Japan since its formation in 1955. It is not a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. Because the LDP president (who *de facto* becomes Japan's prime minister) is not the true leader of the party, he often lacks the power to resolve divisive intra-party disputes or even to set the party's agenda. Koizumi has altered this situation somewhat. One of his most significant political reforms has been the partially neutralization of party factions. He has accomplished this in part by refusing to give the most numerically powerful factions key Cabinet posts.

Over time, one result of the LDP's opaque, top-down decision-making structure has been its inability to adapt quickly to changes in Japanese society. The LDP has coddled many of Japan's declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party's political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP's top leaders have been implicated in various kickback scandals. Compounding the problem is that Japan's electoral districting system overweights rural voters compared with more reformist-minded urbanites; each rural vote is worth an estimated two urban votes.

Over the past decade, a bloc of independent voters — who now constitute a majority of the voting population — has arisen opposing the LDP's "business as usual" political system. Urban, younger, and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform (although when pressed, many of these same voters oppose specific structural — and potentially painful — economic reforms). Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The rise of unaffiliated voters helps explain the LDP's steadily declining strength in the Diet (the Japanese parliament) over the past decade. Since it was briefly ousted from power in 1993 and 1994, the LDP's lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass, making radical policies that much more difficult to adopt.

The Weakness of the Opposition Democratic Party of Japan (DPJ).

Koizumi's popularity has weakened the DPJ, Japan's largest opposition party. The DPJ, which describes itself as "centrist," is led by Naoto Kan. The DPJ was formed in April 1998 as a merger among four smaller parties. A fifth grouping, Ichiro Ozawa's conservative Liberal Party, joined the DPJ in July 2003. The amalgamated nature of the DPJ has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20%. The Democrats' absorption of the Liberal Party appears to have given the party a boost in opinion polls, to such an extent that some observers say it is no longer inconceivable that in the near future the DPJ could threaten the LDP.

LEGISLATION

H.R. 595 (Mica)

To provide compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Introduced February 5, 2003; referred to House Committee on Arms Services. Executive branch comment requested from the Department of Defense, February 28, 2003.

H.R. 1864 (Rohrabacher)

To preserve certain actions in Federal court brought by former prisoners of war seeking compensation from Japanese entities for mistreatment or failure to pay wages in connection with slave or forced labor. Introduced April 9, 2003; referred to House Committees on the Judiciary, International Relations, and Government Reform. Referred to Subcommittee on Immigration, Border Security, and Claims, May 5, 2003.

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U.S.-Japan Economic Ties: Status and Outlook

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U.S.-Japan Economic Ties: Status and Outlook

SUMMARY

The U.S.-Japan relationship is a long-term one involving mutually accepted principles — regional economic and political stability; market-driven economies; and democratic systems of government. The relationship is also complex, encompassing many factors.

The United States and Japan are closely tied economically. Japan ranks third to Canada and Mexico as the largest single-country market for U.S. exports. Japan is the leading market for U.S. agricultural exports. Japan is also the second largest supplier of U.S. imports. The United States ranks as Japan's number one export market and import supplier. The two economies are also tied by financial capital flows.

Despite, or perhaps because of, the interdependence, U.S.-Japan ties have been burdened by friction for many years. In the late 1960s and the 1970s, these tensions derived from the growth in competition from Japanese imports, first in labor-intensive goods, such as wearing apparel, then later in more capital-intensive goods, such as steel and cars. Since the 1980s, as U.S. competitiveness in these industries improved and/or as Japan's competitiveness lessened, the emphasis of U.S. concerns shifted to market access in Japan for U.S.-made products, such as agricultural products, semiconductors, cars and autoparts, and insurance.

For many on the U.S. side, especially those adversely affected, the trading relationship with Japan was seen as an increas-

ingly unfair one to the advantage of Japan, and the U.S. deficit was considered to be the result of unfair Japanese trade practices. Japan, on the other hand, argued that its growing advantage in trade was the result of the increasing competitiveness of Japanese-made products and the inability of American products to compete in Japanese markets.

In the last few years, U.S.-Japan bilateral economic ties have become less tense, although issues over imports of steel from Japan, high Japanese tariffs on rice, and market access in Japan for insurance, glass, and photo film, have caused friction to increase recently. Moreover, differences have arisen over how Japan should deal with its current economic problems that have led to anemic or even negative economic growth since 1991.

The United States and Japan work together in multilateral fora, such as the World Trade Organization (WTO) and the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling regional organization.

There is a long history of congressional interest in Japan because of Japan's role as a world economic power and an important U.S. ally. Members are concerned about how trade and investment with Japan affects the United States as a whole and their constituencies in particular. These U.S.-Japan ties are frequently the subject of congressional committee oversight hearings.

MOST RECENT DEVELOPMENTS

Japan announced on **July 29** that it would raise tariffs on imported beef from 38.5% to 50.0% effective from August 1, 2003 through March 31, 2004. The increased tariffs are in response to a surge in beef imports. U.S. Secretary of Agriculture Ann Veneman called the higher tariffs "unnecessary and unwarranted."

On **May 23**, during his Crawford, Texas summit meeting with Prime Minister Koizumi, President Bush praised steps that the Japanese government was taking to deregulate its economy and to return it to a path of sustained economic growth. However, on **June 3**, the chairmen and ranking members of the Senate Finance Committee and House Ways and Means Committees sent a joint letter to President Bush, stating that the United States needed to press Japan to open its markets to U.S. exports of flat glass, financial services, autos, and other products. The letter stated: "Although we understand that your recent meetings [in Crawford] with the Prime Minister included discussions on economic issues, we urge you to press Japan to continue to deregulate, reform its banking system, and open its markets to U.S. goods, services, and farm products."

Overview of Japan-U.S. Economic Ties

The U.S.-Japan relationship is a long-term one involving mutually accepted objectives and principles — regional economic and political stability; market-driven economies; and democratic systems of government. The relationship is also complex encompassing many factors. During the Cold War, national security and defense matters largely defined the relationship. But as the threat of the Soviet Union receded and eventually disappeared and as U.S. and Japanese relations with China have changed, economic matters have become more dominant in U.S.-Japan ties.

The United States and Japan are closely linked economically. Japan is the third largest single-country U.S. export market and is actually the leading market for U.S. agricultural exports, such as corn and wheat; for U.S. crude materials, such as wood; and for U.S.-produced aircraft. Japan is also the second largest supplier of U.S. imports, including cars, consumer electronics, telecommunications equipment, and computers. The United States is Japan's largest export market and import supplier.

The two economies are also tied by financial capital flows. Japan is one of the largest sources of foreign portfolio capital (bank deposits, stocks, bonds, and other securities) and of foreign direct investment (plants and real estate) in the United States. Likewise, the United States is the largest source of foreign portfolio and direct investments in Japan.

Despite or perhaps because of the interdependence, U.S.-Japan ties had been burdened by friction for many years. In the late 1960s and the 1970s, these tensions derived from the growth in competition from Japanese imports, first in labor-intensive goods, such as wearing apparel, then later in more capital-intensive goods, such as steel and cars. Since the 1980s, as U.S. competitiveness in these industries improved and/or as Japan's competitiveness lessened, the emphasis of U.S. concerns shifted to market access in Japan for U.S.-made products, such as agricultural products, semiconductors, cars and autoparts, and insurance.

For many on the U.S. side, especially those adversely affected, the trading relationship with Japan has been seen as increasingly unfair and favoring Japan, symbolized by the imbalance in goods trade. Japan, on the other hand, has argued that its growing advantage in trade has been the result of the increasing competitiveness of Japanese-made products and the inability of American products to compete in Japanese markets.

U.S.-Japan trade friction subsided in the second half of the 1990s but differences over imports of steel from Japan, high Japanese tariffs on rice, and market access in Japan for insurance, and glass have caused friction to increase recently. But it has been Japan's poor economic performance since 1991 that has taken center stage in bilateral relations. The United States and Japan also work together in multilateral fora, such as the World Trade Organization (WTO) and the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling regional organization.

There is a long history of congressional interest in Japan because of its role as a world economic power. Members are concerned about how trade and investment with Japan affect the United States as a whole and their constituencies in particular. They are also concerned about how tensions in economic relations affect the health of the U.S.-Japan alliance. U.S.-Japan economic ties have been the impetus for major trade legislation and are frequently the subject of congressional committee oversight hearings.

Trends in U.S.-Japan Economic Ties

For many years, the U.S.-Japan economic relationship has been clouded by persistent, large imbalances. As Table 1 below indicates, the U.S. merchandise (exports and imports of goods) trade deficit with Japan was a record \$81.3 billion in 2000, but in 2001 the U.S. deficit declined to \$69.0 billion, but increased slightly to \$70.1 billion in 2002. The deficit is matching that pace in 2003 (based on data for the first seven months).

A more inclusive measure of trade balances is the balance on the current account, which includes the balances in merchandise trade, investment income, trade in services, and unilateral transfers. According to Department of Commerce data, the U.S. current account deficit with Japan in 1999 was \$87.8 billion and was \$97.5 billion in 2000. In 2001, the deficit declined to \$78.3 billion but increased to \$80.1 billion in 2002.

Economists generally attribute the persistent imbalances in U.S.-Japan trade to domestic savings-investment imbalances in the two countries. Japan has a relatively high savings rate that more than covers domestic (both private and government) investment requirements while the United States has a lower savings rate that does not meet U.S. domestic private and public investments needs. These imbalances are reflected in each country's current account balances with the world and with each other where Japan has consistently run surpluses while the United States has run deficits.

Other factors, such as sudden changes in foreign exchange rates, can cause short-term shifts in the trade balances. The Japanese yen depreciated in 2001 and into the beginning of 2002 in terms of the dollar, making U.S. exports to Japan more expensive and imports from Japan cheaper causing U.S. exporters and import-sensitive producers some competitiveness concerns. On January 2, 2001, the yen/dollar exchange rate was ¥114.75=\$1.00. On

February 26, 2002, the rate was ¥133.88 = \$1.00, a 14.5% yen depreciation. However, the yen has appreciated since then to ¥111.03 = \$1.00 (Sept. 29 2003). The Bank of Japan has intervened to dampen upward pressure on the yen.

Table 1. U.S. Merchandise Trade with Japan, 1992-2002
(\$ billions)

Year	Exports	Imports	Balances
1992	47.8	97.4	-49.6
1993	47.9	107.2	-59.4
1994	53.5	119.2	-65.7
1995	64.3	123.6	-59.3
1996	67.5	115.2	-47.6
1997	65.5	121.7	-56.1
1998	57.9	122.0	-64.1
1999	57.5	131.4	-73.9
2000	64.9	146.5	-81.6
2001	57.6	126.6	-69.0
2002	51.4	121.5	-70.1
2002*	29.9	68.8	-38.9
2003*	30.2	68.4	-38.1

* First seven months data

Source: U.S. Department of Commerce, Bureau of the Census. Exports are total exports valued on a f.a.s. basis. Imports are general imports valued on a customs basis.

Japan's Economic Problems

Japan's economy has been anemic at best, and at times in decline, for most of the last 10 years. Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One has been the effects of the "burst" in the economic "bubble," in the early 1990s, which saw the value of land and other assets collapse. The bursting of the bubble led to serious problems for Japan's banking sector as Japanese banks held loans made in the 1980s that had been backed up by inflated real estate. These problems have dampened domestic demand. Furthermore, some analysts point to Japanese fiscal policies that have emphasized budgetary restraint and increased taxes that have also kept a lid on demand. To try to boost demand, the Japanese government has implemented a series of fiscal stimulus packages since 1992.

In the longer term, Japanese and U.S. economists point to rigid government regulations that stifle productivity in a number of sectors. The United States and others have been pressuring Japan to undertake deregulation. (See section below on deregulation.)

Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5%, *declined* 0.5% in 2001, and increased only 0.3% in 2002, and slightly over 1% for the first half of 2003. Independent analysts remain skeptical of the long-term prospects for the Japanese economy given other indicators showing weakness including declining business investment and an unemployment rate of 5.3% as of July 2003 (the latest data available). (For more information on Japan's economic problems, see CRS Report RL30176, *Japan's "Economic Miracle": What Happened?.*)

Major Issues

Besides the growing imbalance in bilateral trade, the United States and Japan confront a range of issues, any or all of which could lead to sharpened tensions. The issues include a sudden increase in steel imports from Japan and U.S. concerns over implementation of past agreements. The United States and Japan also hold regular discussions over the latter's efforts at economic deregulation and on foreign investment in Japan.

U.S.-Japan Economic Partnership for Growth

At their June 30, 2001 summit meeting at Camp David, President Bush and Prime Minister Koizumi announced the formation of a new bilateral framework for addressing economic issues of mutual concern. The "U.S.-Japan Economic Partnership for Growth," (Economic Partnership) follows and draws from bilateral forums that previous U.S. administrations established with their counterpart governments in Japan. In each case the forum was designed to cover a broad range of complex issues.

The Economic Partnership consists of several initiatives or dialogues to include participation from subcabinet level leaders from both governments and participation from members of the business communities and other non-government sectors from both countries. The U.S.-Japan Subcabinet Economic Dialogue will provide overall direction for the Economic Partnership. Other elements of the Economic Partnership include: the Regulatory Reform and Competition Policy Initiative (with working groups on telecommunications, information technologies, energy, and medical devices and pharmaceuticals, plus a cross-sectoral working group); the Financial Dialogue; the Investment Initiative; and the Trade Forum. Each one of these elements will be responsible for reporting to the president and the prime minister on the progress of their work.

Steel Imports

In 1998 the United States experienced a sharp increase in imports of various types of steel products. Among the largest sources of the increases were Japan, Brazil, and Russia. U.S. imports of steel from Japan jumped nearly 162% from 1997 to 1998, according to Commerce Department data.

The surge caused the U.S. steel industry to seek remedies from the U.S. government and steel companies and labor unions filed a number of antidumping and countervailing duty cases. In August 5, 1999, the Clinton Administration announced a "steel action plan," to address concerns of the steel industry. Among other things the Administration pledged to

enforce U.S. trade laws to remedy problems with antidumping and other practices by foreign steel exporters. In announcing the plan, the Administration labeled Japan as the primary source of the steel import surge in 1998. Subsequently, the United States requested bilateral talks with Japan on the steel situation to which Japan agreed, but the two countries failed to reach an agreement on what was to be done.

A number of Members of the 107th Congress are called for the Bush Administration to take action to curtail steel imports. In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries and to bolster domestic producers. Steel workers and firms have cited a surge in steel imports after 1997 as a reason for financial problems they face. They claimed that dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete. They pressured the Clinton Administration and the Bush Administration as well as the Congress to take action.

The 106th Congress passed and President Clinton signed the "Continued Dumping and Subsidy Act of 2000" (P.L. 106-387), the so-called "Byrd Amendment," enacted on October 28, 2000. The Act requires revenues from countervailing duty and antidumping orders to be distributed to firms that have been injured by dumped and subsidized imports. On December 21, 2001, nine countries, including Japan, requested consultations with the United States as the first step in bringing their objections over the "Byrd amendment" to the World Trade Organization (WTO). The countries claim that the law violates U.S. obligations in the WTO.

In the meantime, the Bush Administration on June 22, 2001, submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitute a substantial cause or threat of "serious injury" to the U.S. industry under the section 201 (escape clause) statute. On December 20, 2001, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan.

On March 5, 2002, President Bush announced that the United States would impose remedy tariffs on imports of selected steel products. The Administration's decision came after the U.S. International Trade Commission (USITC) determined, under the section 201 (escape clause) statute, that a surge in imports of steel products in 1998 from various countries, including Japan, were a substantial cause or threat of "serious injury" to the U.S. steel industry. In 1998, the total quantity of U.S. imports of steel products increased 35% from the year before. The volume of U.S. imports of steel products from Japan soared 171% in 1998 but has declined substantially since then. In 2001, Japan accounted for about 7% of U.S. imports of steel products.¹

On March 6, 2002 Prime Minister Koizumi's government called the decision by the Bush Administration to impose the higher tariffs regrettable and stated that the problems of the U.S. steel industry were due to its lack of international competitiveness and not to imports. On March 20, 2002, Japan requested formal consultations with the United States

¹ United States International Trade Commission. *U.S. Imports of Steel Products: Overall Trends by Source Country* [http://dataweb.usitc.gov/scripts/steel_monthly/].

through the WTO dispute settlement body, stating that the U.S. action was not in compliance with WTO rules.

On May 17, Japan notified the WTO of its intent to retaliate against U.S. safeguard measures on steel imports by imposing tariffs on imports of U.S. steel worth \$4.88 million. In doing so, Japan cited Article 8 of the WTO Safeguard Agreement which allows immediate retaliation if the country imposing the safeguard actions has done so without an absolute increase in imports of the product.

On August 30, the Japanese government announced that it would withdraw its threat to retaliate because, during a review, the United States ended up excluding some steel products from the section 201 decision, including a number of products imported from Japan. Nevertheless, Japan and several other steel exporting countries are pursuing their case in the WTO's Dispute Settlement Body. The WTO dispute panel that was established to hear the case held its first hearing on October 29. Japan, the EU, Brazil, China, New Zealand, Norway, South Korea, and Switzerland have argued that the United States did not follow WTO rules in imposing the safeguard actions, an issue the United States strongly denies. On March 26, 2003, the panel released its preliminary determination, ruling against the United States. The panel reaffirmed that decision in its May 2 final ruling. In August 2003 the Bush Administration filed an appeal of the ruling, and the decision on the appeal is expected in November 2003. On May 22, however, another WTO dispute panel ruled in favor of the United States in a case brought by the Japan against continued U.S. antidumping orders against imports of surface-treated steel sheets.

Implementation of Agreements

Bilateral, sector-specific agreements or understandings under which Japan agrees to take measures to open its markets to U.S. products or services in various sectors in response to U.S. complaints have been a staple of the U.S.-Japan trade framework for decades. But the agreements themselves are hardly ever the end of the issue. Disputes frequently arise over whether the agreement is being implemented correctly. Recently, U.S. industry and government officials have raised concerns about lack of progress under agreements reached during the last 6 years on access to Japanese markets in several sectors, for example, insurance, flat glass and autos. The Bush Administration has indicated that ensuring compliance with these agreements is one of its trade policy priorities.

In his March 7, 2001, testimony before the House Ways and Means Committee, USTR Zoellick indicated that the United States would continue to press Japan to restructure its economy and take measures to stimulate economic growth. In the 2001 Trade Policy Agenda/2000 Annual report, Zoellick stated that the United States would continue to monitor Japanese compliance with trade agreements.

Insurance. Market access in Japan for U.S. financial services has been an issue of growing importance in U.S.-Japanese relations. Financial services are heavily regulated, limiting participation by U.S. and other foreign companies and restricting entry by new domestic firms. Such has been the case with insurance. Specifically, American firms have complained that little public information is available on insurance regulations and on how those regulations are developed, thereby, making it difficult to know how to get approval for doing business in Japan. They also assert that regulations favor insurance companies that

are tied to business conglomerates—the keiretsu — making it difficult for foreign companies to enter the market.

Japan is the largest insurance market in the world with the United States closely following, but foreign insurers account for only a small portion of the Japanese market. After years of negotiations, the United States got Japan to agree in October 1994 to take measures to open its market for life insurance and nonlife insurance (fire and auto insurance). At the same time, Japan agreed to delay deregulation of the so-called third-sector insurance market, which encompasses specialty insurance coverage — such as cancer, hospitalization, nursing care, and personal accident — so as not to reduce the competitive advantages foreign firms, particularly U.S. firms, had built in this market.

At the end of 1995 and early 1996, U.S. officials and the American insurance industry were becoming concerned that Japan was reducing regulations on the third sector as well as the others contrary to the agreement. After many months, U.S. and Japanese negotiators reached agreement on December 15, 1996. Under the agreement, Japan would open life and nonlife insurance market to foreign competition and limit domestic company entry into the third sector until thirty months after it has made “substantial” progress in deregulating the life and nonlife sectors. But the United States has protested that Japan has already allowed domestic companies to enter the third sector. Japan has argued that it has already made the “substantial progress” stipulated in the agreement. The two sides have failed to agree to even meet to work out their differences. On February 24 2000, the Japanese government Financial Supervisory Agency announced that it would allow Japanese life and non-life insurance companies to do business in the third sector beginning January 1, 2001.

In late August 2002, the American Council of Life Insurers (ACLI) announced that it would urge the U.S. government to seek consultations with Japan regarding favorable government treatment of Kampo, a government-owned insurance company. According to ACLI, favorable tax and regulatory treatment gives Kampo unfair competitive advantages over foreign and other domestic firms.

Autos and Autoparts. On June 28, 1995, the United States and Japan concluded an agreement on the sale of U.S.-made cars and autoparts in Japan. The announcement came hours before a deadline after which the Clinton Administration was prepared to impose sanctions of 100% tariffs on 13 models of Japanese-made luxury cars. The agreement covered Japanese business practices and government regulations that the United States claims prevented U.S. manufacturers from gaining larger shares of the Japanese market in three product areas: autos; original equipment and accessories for autos; and replacement autoparts. On December 3, 2000, the bilateral pact on trade in cars and autoparts expired. The United States pressed Japan to renew, but Japan resisted. On June 26, 2001, a bipartisan group of members of the House and Senate sent a letter to President Bush urging him to push for the pact’s renewal during his June 30 meeting with Koizumi. President Bush reportedly raised the issue of the difficulty of U.S. exporters of cars and autoparts to penetrate the Japanese market. On July 19, Assistant USTR Wendy Cutler proposed in a meeting with the Ministry of Economy, Trade and Industry, that the United States and Japan form a bilateral discussion forum on auto trade issues under which both sides would hold regular discussions. Japan is reportedly still considering the proposal. In June 2002, the Office of the USTR indicated its concern over a sharp increase in imports of autos and autoparts from Japan and that it would be monitoring the trends closely.

Flat Glass. In 1995 the United States and Japan concluded an agreement to improve access of foreign flat glass producers to the Japanese domestic market. The agreement was in response to complaints by U.S. producers that they were locked out of the Japanese market which has been effectively controlled by three Japanese companies. U.S. manufacturers alleged that a combination of anticompetitive private-sector business practices and Japanese government regulations restricted entry into the market. Under the 1995 agreement the Japanese government pledged to revise building regulations to encourage the use of foreign-produced glass and to more vigorously enforce the Anti-Monopoly Law against anticompetitive practices. Private sector consumers and wholesalers pledged to broaden their source of supplies to include foreign glass. The agreement expired at the end of 1999. Negotiations for an extension of the agreement failed with the United States pressing for an extension and Japan resisting.

Deregulation

Underlying many of the market access problems U.S. firms have with Japan are the large number of regulations that have been in place on many aspects of Japanese economic activity. Some of these regulations are a product of the immediate post-war era when Japan was rebuilding its economy. Others came later. These regulations have contributed to low productivity in some economic sectors. They have been a factor in the limited choices that Japanese consumers have had in food and other products and also have resulted in the notoriously high prices that Japanese residents must pay for what Americans would consider to be staples.

Japanese policymakers have recognized the adverse economic effects of government regulations but the difficulty has been in implementing reforms. The Economic Planning Agency of Japan released a study in November 1994 indicating the adverse productivity and price effects of regulations and calling for regulatory reform. Recent Japanese governments have promised to undertake deregulation but in many cases they run up against the powerful elements of the permanent bureaucracies of the ministries — Ministry of Finance, Ministry of Agriculture, and Ministry of Construction — that implement the regulations and that would lose authority if extensive deregulation were to take place.

Deregulation is part of bilateral discussions under the U.S.-Japan Economic Partnership for Growth initiative. The deregulation subgroup released its first report on June 26, 2002. USTR Zoellick indicated that Japan had taken positive steps in deregulating important sectors: telecommunications, pharmaceuticals and medical devices, information technology, financial services, and energy. But he also indicated that the reforms did not quite meet the recommendations that the United States presented to Japan in October 2001.

On December 20, 2002, after meetings with Japanese officials on telecommunications trade, a U.S. negotiator expressed concern over the intention of NTT, the major Japanese telecommunications company, to raise interconnection fees. A deal reached in July 2000 whereby Japan agreed to lower fees expired at the end of 2002. The United States argues that the higher fees inhibit non-NTT telecommunications providers from participating in the Japanese market. On May 23, 2003, during his Crawford, Texas summit meeting with Prime Minister Koizumi, President Bush praised steps that the Japanese government was taking to deregulate its economy and to return it to a path of sustained economic growth.

Foreign Investment in Japan

The level of foreign direct investment in Japan is lower than in other fully industrialized countries. Beginning in the 1950s, the Japanese government severely restricted foreign direct investment to build up Japanese ownership in fledgling industries, such as the automobile sector. Many U.S. companies that have a large presence in Japan, such as IBM and Coca-Cola, originally established themselves before restrictions were put in place.

Although Japan has liberalized controls, foreign direct investment has remained low. Some analysts point to the high costs of establishing business in Japan that results from high price for land, especially in business centers like Tokyo. The yen appreciated sharply against the dollar since 1985, which increased costs for dollar holders. Analysts and companies that want to do business in Japan also cite Japanese government regulations that indirectly inhibit foreign investment. For example, Japan's Large Retail Store Law has protected small retail outlets from competition by imposing burdensome requirements on foreign and domestic entities that wanted to establish large, more efficient retail operations. As a result of pressure from the United States and domestic consumers, the Japanese government revised the Large Retail Store Law to ease entry. As a result, some American-owned chains, such as "Toys R Us," are becoming well-known in Japan. Japan's demand for foreign capital is not as high as the U.S. demand because of the high Japanese savings rate, and this factor probably contributes to the lower level of foreign investment in Japan.

American business officials argue that trade follows foreign investment; that is, once a foreign company has established itself abroad, it imports from the host country increasing the home country's exports. Economists have debated this notion..

The United States and Japan are pursuing talks on foreign investment. U.S. objectives in the discussions are to get Japan to increase financial incentives for foreign investment, change regulations that have made acquisitions and mergers difficult, extend the period in which investors can carryover losses for tax purposes, and change taxation on real estate to reduce the financial burden on investment. Foreign investment in Japan has increased rapidly recently.

Regional and Multilateral Negotiations

The United States and Japan have been among the most important architects of the General Agreement on Tariffs and Trade (GATT) and among the most significant members of the World Trade Organization (WTO), the successor organization to and the implementing body of the GATT. Both countries are also founding members of the Asian-Pacific Economic Cooperation (APEC) forum, a fledgling body of 21 member economies of the region.

While the United States and Japan continue to address many issues through bilateral negotiations, both countries are relying to a greater extent than in the past on the multilateral dispute settlement mechanism in the WTO. In part this trend is due to the GATT's broader coverage. As a result of the Uruguay Round agreements, the GATT (and therefore the WTO), covers a broader range of trade practices pertaining to manufactured goods and also

some previously uncovered practices affecting agricultural products, services, and foreign investment. In addition, the Uruguay Round agreements helped to address fundamental weaknesses in the GATT dispute settlement mechanism — the ability of a country to veto a judgement rendered against it and the long process leading up to a judgement.

WTO members are struggling to meet a March 31, 2003, deadline to have in place the “modalities” within which negotiations in a number of areas including, agriculture and services, are to take place in the Doha Development Agenda (DDA) round of negotiations. While Japan and the United States are in agreement in most areas, they have taken diametrically opposing positions on agriculture. The United States has joined Australia and other agricultural exporting countries in proposing that WTO members agree to a negotiating modality that would severely cut tariffs and subsidies on agricultural products. Japan has joined with EU in proposing a less radical approach. Agriculture has proved a major stumbling block in the DDA negotiations including the September 2003 WTO Ministerial Meeting in Cancun, Mexico.

The members of APEC have agreed to the goal of establishing free trade and investment among them by 2010 for the fully industrialized countries and by 2020 for all countries. In the meantime, each member economy has submitted an action plan outlining unilateral measures it will take to liberalize and facilitate trade and investment. All members have agreed on measures to open trade and investment in the region. The United States and Japan have been the most influential economies in shaping and implementing the free trade agenda of APEC. APEC is evolving into a body that supplements, rather than substitutes for, multilateral negotiations. APEC’s principles of WTO compatibility and “open regionalism” allow the forum to be a platform on which its members can develop a regional consensus on issues of mutual interest.

The Outlook for U.S.-Japan Economic Relations

The size of their economies dictates that the United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. Japan’s share of U.S. exports has declined from about 11.0% in the early 1990s to 7.4% in 2003 as Mexico has become a more important market. Also Japan’s share of U.S. imports has dropped from 20.8% in 1987 to 9.6% in 2003 as Mexico and China have become an increasingly significant source of U.S. imports.

Good indicators of the future climate in U.S.-Japan economic relations and the progress they are making on pending and upcoming issues, include the following:

- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to growing tensions; economic growth and reform in Japan;
- the level of steel imports into the United States from Japan and the status U.S. steel industry antidumping cases against Japanese steel; and
- agriculture negotiations in the WTO.

FOR ADDITIONAL READING

CRS Products

CRS Issue Brief IB97004. *Japan-U.S. Relations: Issues for Congress* by Richard Cronin.

CRS Report RL30272. *Global Financial Turmoil, the IMF, and the New Financial Architecture*, by Dick K. Nanto.

CRS Report RS20335. *Japan's Landmark Financial Deregulation: What It Means for the United States*, by Dick K. Nanto.

CRS Report RL30176. *Japan's "Economic Miracle": What Happened?*, by William H. Cooper.

CRS Report for Congress

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Japan-North Korea Relations: Selected Issues

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Japan-North Korea Relations: Selected Issues

Summary

Japan and North Korea have not established official relations since the Korean Peninsula, which the Japanese Empire annexed in 1910, was liberated from Japanese rule and divided into two separate states following Japan's defeat in World War II. Attempts to establish normal relations in the early 1990s and again in 2000 ended in failure, due to seemingly unresolvable obstacles. In September 2002, a one-day summit was held in Pyongyang between Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il, the first ever between the leaders of the two countries. Koizumi and Kim momentarily appeared to break longstanding stalemates on several issues and agreed to restart bilateral normalization talks, but the talks subsequently stalled, due to two developments: North Korea's apparent admission to U.S. officials in October 2002 that it had a secret nuclear weapons program based on the process of uranium enrichment; and popular outrage in Japan at Kim Jong-il's admission that North Korea kidnapped 13 Japanese in the 1970s and 1980 and brought them to North Korea to live. Subsequently, according to the North Korean government, eight of whom died.

Japan's role is potentially critical in the current crisis over North Korea's nuclear weapons programs for a number of reasons. Most importantly, Japan has promised North Korea a large-scale economic aid package to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965. The assistance is to be provided after the countries agree to normalize relations, a process that Japan now links to a resolution of the nuclear issue. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion, an enormous sum for the North Korean economy, the total GDP of which is estimated to be in the \$20 billion range. Currently, Japan is a significant source of North Korea's foreign exchange, by virtue of the large Japanese market for the North Korean government's suspected drug-running operations, and of remittances from Korean permanent residents in Japan. Japan is North Korea's third-largest trading partner.

Since the fall of 2002, Japan has been the Northeast Asian country most supportive of the Bush Administration's policy of pressuring North Korea to abandon its nuclear program, and has taken a number of steps to curtail North Korea's ability to earn hard currency and to import dual-use technology. Since North Korea launched a long-range missile over Japan in 1998, relations with North Korea have been a highly politicized issue inside Japan, creating strong domestic support for taking a hard line against Pyongyang. Prime Minister Koizumi, however, has equivocated on taking more coercive measures against North Korea, such as economic sanctions, absent an escalation of the situation by Pyongyang. Japan fears such measures could provoke a military response by North Korea and/or trigger a surge in refugees.

This report will be updated periodically to track developments in Japan-North Korea relations.

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Japan-North Korea Relations: Selected Issues

Introduction

In recent years, Members of Congress have monitored the course of North Korea-Japan relations because Japan plays a potentially critical role in addressing the military threat posed by North Korea, particularly its nuclear weapons program.¹ Most important, Japan has told North Korea it is prepared to offer a large-scale economic aid package — on the order of \$5 billion - \$10 billion — to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945. During the August 2003 six-party talks in Beijing among North Korea, the United States, South Korea, China, Japan, and Russia, the Japanese delegation reportedly reiterated its position that significant aid would be forthcoming if North Korea abandoned its nuclear program and cooperated on the issue of Japanese citizens kidnapped by North Korean agents in the 1970s and 1980s.

Japan also is important to the North Korean situation because it is a significant source of North Korea's foreign exchange. Not only is Japan North Korea's third-largest trading partner, but the Japanese market also is a major destination for the North Korean government's suspected drug-running operations and of remittances from Korean permanent residents in Japan.

Congress also has an interest in Japan-North Korea relations because Japan's bilateral issues with North Korea influence U.S. policy. The United States has long cited Pyongyang's harboring of Japanese Red Army terrorists — who face charges in Japan of hijacking a plane in 1970 — as a reason for North Korea's inclusion on the U.S. terrorism list, which by law prohibits North Korea from receiving many forms of U.S. economic assistance and some trading rights.² At Japan's urging, the United States reportedly also has linked delisting to North Korea's cooperation with Japan on the abduction issue.

Finally, Japan arguably has been the strongest supporter in East Asia of the Bush Administration's policy of pressuring North Korea to abandon its nuclear program. Although Japan shares the objections of other regional states to the use of preemptive military force, it is more willing than China, South Korea, and Russia to employ coercive diplomatic measures against Pyongyang. Japan's position thus is important

¹ For more on North Korea's nuclear weapons program and U.S.-Korean relations, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, and CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, both by Larry Niksch.

² For more, see CRS Report RL31696, *North Korea: Economic Sanctions*, by Dianne Rennack.

to the U.S. effort to deal with the North Korean nuclear program multilaterally, rather than bilaterally (U.S.-North Korea exclusively), as North Korea had insisted. Indeed, since the late 1990s, the rising perception of the North Korean threat has prompted and enabled Japanese leaders to broaden substantially the country's security posture.³

The Pyongyang Declaration

The Koizumi-Kim Summit

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang that momentarily restarted normalization talks between the two countries, which had been stalled since November 2000. Koizumi and Kim signed a short document called the "Pyongyang Declaration." Kim pledged conditionally to unilaterally extend his country's moratorium on missile testing beyond 2003 (when it was to expire), admitted that North Korean agents had kidnapped 13 Japanese in the 1970s and 1980s, and issued a vague promise to comply with international agreements related to nuclear issues. Koizumi, in turn, apologized for Japan's colonization of the Korean Peninsula and offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965.

At the time, Koizumi's trip to Pyongyang was a significant departure from Tokyo's increasingly hard-line stance toward North Korea and had the potential to put Japan at odds with the Bush Administration's policy. For most of the late 1990s, Japanese policymakers sought to move slowly and deliberately on normalizing relations with North Korea, due to the launch of a long-range Taepodong Missile over the Japanese Islands in August 1998, Pyongyang's development and deployment of medium-range Nodong missiles capable of reaching Japan, new revelations about the abductions of Japanese citizens by North Korean agents, and incursions by North Korean espionage and drug-running ships into Japanese waters. This cautious approach often created tension between Tokyo and the Clinton Administration, which, along with South Korea's Kim Dae Jung, pursued a policy of engaging North Korea in the late 1990s. During this time, Japanese policymakers often appeared torn between a desire to avoid becoming isolated from U.S.-South Korea-North Korea diplomacy and domestic pressure to proceed cautiously.^{4 5} This dilemma was

³ See CRS Report RL30256, *Japan's Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation*, by Richard Cronin.

⁴ Note that Japanese diplomats were anything but passive on the issue of the abductees, which ultimately (in 2000) they convinced a reluctant Clinton Administration to include on the bilateral U.S.-North Korean agenda.

⁵ The most stunning setback to Japanese diplomacy came in 1994, when the United States — with limited consultations with the Japanese — entered into an Agreed Framework with North Korea to freeze its nuclear program with the expectation that Japan would contribute \$1 billion towards the construction of two proliferation-proof light water nuclear reactors.

(continued...)

relieved when the Bush Administration came into office in 2001 and pursued a policy of using public accusations and warnings to pressure North Korea to allow international inspections of its nuclear facilities and agree to verifiable curbs to its missile program, including missile exports.⁶

The Talks Break Down

The Japan-North Korea normalization talks and parallel security talks stalled due to two developments shortly after the Koizumi-Kim summit: North Korea's October 2002 admission to U.S. officials that it has a secret nuclear weapons program based on the process of uranium enrichment; and popular outrage in Japan at Kim Jong-il's admission that North Korea had kidnapped 13 Japanese, eight of whom the North Koreans said had died since their abductions. Prime Minister Koizumi has said normalization talks will not continue unless Pyongyang cooperates on the abduction issue and begins dismantling its nuclear program. Also, in October, the five known surviving kidnapes traveled to Japan for a one-to-two week visit, but were not permitted to bring their children — some of whom do not know their parents are Japanese — or spouses with them. The ensuing public outcry that these relatives were being held as “hostages” led Koizumi to refuse to send the five back to North Korea and to demand that family members be allowed to come to Japan.⁷

(One complicating factor is that the husband of one of the five is an American military deserter living in North Korea.) The five continue to live in Japan, and reportedly have taken steps, such as finding jobs and buying property, to reintegrate into Japanese society.

On October 29, 2002, Japan and the DPRK held normalization talks in Kuala Lumpur, Malaysia. The Japanese delegation reportedly told the North Korean side that normalization — and therefore, discussion of economic assistance — would not proceed until Pyongyang agrees to send the children of Japanese abductees to Japan and halt its nuclear weapons program. Japanese negotiators also requested that the North dismantle its medium-range Nodong missiles. North Korea, accusing the Japanese side of breaking with the Pyongyang Declaration, made no concessions, and the meetings ended with no joint statement. Subsequently, a North Korean Foreign Ministry spokesman warned that if bilateral talks stall over the nuclear issue, Pyongyang may reconsider its missile moratorium. Separate bilateral discussions of security issues, which were to have begun in November 2002, have yet to be held. Throughout 2003, the two countries have held several official and unofficial

⁵ (...continued)

Construction of the reactors was suspended in November 2003 after a consensus was reached among the project's four principal backers, the United States, Japan, South Korea, and the European Union. Japan has contributed about \$300 million to the project since 1995.

⁶ For more on U.S. policy toward North Korea, see CRS Issue Briefs IB91141, *North Korea's Nuclear Weapons Program*, and IB98045, *Korea: U.S.-Korean Relations*, both by Larry Niksch.

⁷ “Koizumi Made Final Decision to Keep 5 Abductees in Japan,” *Jiji Press*, October 1, 2003.

discussions about resolving the kidnapping issue and restarting the normalization talks.

Selected Issues in Japan's Policy toward North Korea

North Korea's Nuclear Program and Japan's Increased Willingness to Consider Coercive Diplomacy

In the Pyongyang Declaration, Japan and North Korea promised to “abide by all relevant international agreements in order to comprehensively resolve the nuclear issue on the Korean peninsula.” Koizumi reportedly had insisted on including this in the declaration after being briefed on U.S. intelligence indicating that North Korea's clandestine uranium enrichment program was more advanced than had been thought previously. The international agreements presumably include the 1992 North-South Korean Denuclearization Declaration, which prohibits the possession of uranium enrichment facilities, the 1992 nuclear safeguards agreement with the International Atomic Energy Agency (IAEA), and the 1994 U.S.-DPRK Agreed Framework, which committed North Korea to freezing its plutonium nuclear program.⁸

Since the revelations about North Korea's uranium nuclear program were made public in October 2002, Japan has been the Northeast Asian country most supportive of the Bush Administration's policy of combining multilateral dialogue and pressure to convince North Korea to abandon its nuclear program. At President Bush's side later that same month, Prime Minister Koizumi stated that full normalization could not take place until after the nuclear issue was resolved.⁹ In mid-November 2002, Japan voted with the United States, South Korea, and the European Union to suspend shipments of heavy fuel oil to North Korea. The oil was being provided under the 1994 Agreed Framework, ostensibly to compensate Pyongyang for the energy it lost from shutting down its plutonium nuclear reactors.

Japanese policy hardened further in the aftermath of the April 2003 trilateral U.S.-North Korea-China meeting in Beijing. The following month, during a bilateral summit in Crawford, Texas, Koizumi agreed with Bush that a policy of “dialogue and pressure” should be used peacefully to induce North Korea to give up its nuclear program. Koizumi also declared that Japan would “crack down more vigorously” on

⁸ For more, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry Niksch. The Agreed Framework also contained a link to uranium enrichment activities in Section III.2, which commits North Korea to implement the 1992 North-South Korean Denuclearization Declaration.

⁹ See, for instance, the October 26, 2002 Joint US-JAPAN-ROK Trilateral Statement, in which states that “Prime Minister Koizumi stressed that Japan-North Korea normalization talks would not be concluded without full compliance with the Pyongyang Declaration between Japan and North Korea, in particular with regard to the security issues, including the nuclear issue, and abduction issues.”

illegal activities involving North Korea or ethnic Korean supporters in Japan and would take “tougher measures” if North Korea escalated the situation. Japan is one of eleven countries participating in the U.S.-led Proliferation Security Initiative, announced by President Bush in May 2003, which is designed to interdict weapons of mass destruction shipments to and from countries of proliferation concern, such as North Korea.

Concurrently, since early 2003, the Japanese government has toughened enforcement of its controls on the export of potential dual-use items to North Korea and has announced a new interpretation of domestic foreign exchange laws that would make it easier for Tokyo to cut off bilateral trade and shut off the flow of remittances from ethnic Koreans to their relatives in North Korea. Specifically, Japan has moved away from its traditional position that sanctions against North Korea would require United Nations Security Council approval and is now taking the position that Japan could impose sanctions in cooperation with the United States, even in the absence of specific United Nations approval. Remittances to North Korea are estimated to be in the tens of millions of dollars annually.¹⁰

Additionally, in June 2003, Japan ordered its customs, immigration, and coast guard to expand safety inspections and searches for illicit contraband on North Korean cargo and passenger ships, which made more than 1,300 calls at Japanese ports in 2002.¹¹ According to the Japanese government, more than 70 percent of the 120 North Korean ships inspected in Japan from January to August 2003 were ordered to halt operations or received safety warnings, compared with a general average of 10 percent for all countries’ shipping.¹² As discussed in the “Japan-North Korea Economic Relations” section below, these measures appear to have reduced bilateral trade significantly. Additionally, Tokyo reportedly has drawn up contingency plans that would bar banks from remitting funds to North Korea and deny landing rights to the crew and passengers (except Korean permanent residents of Japan) of Japan-North Korea ferries if North Korea tests a nuclear device.¹³ In late November 2003, the Secretary General of the ruling Liberal Democratic Party (LDP), Shinzo Abe, a prominent advocate of using pressure tactics against North Korea, said he would try to convince the Japanese Diet to approve these measures in early 2004.¹⁴

Japan’s tightening of restrictions against exports to North Korea has been prompted in part by increasing evidence that firms and organizations run by ethnic Korean residents in Japan have provided North Korea with key parts for its missile

¹⁰ For a discussion of the remittances issue, see CRS Report RL32137, *North Korean Supporters in Japan: Issues for U.S. Policy*, by Emma Chanlett-Avery.

¹¹ James Brooke, “Japan Detains 2 North Korean Ships, Part Of Pressure Strategy,” *New York Times*, June 11, 2003.

¹² James Brooke, “Japan Frees North Korean Ferry After Holding It For Day In Port,” *New York Times*, August 27, 2003.

¹³ “Japan To Cut Visits, Remittances and Talks If Pyongyang Tests a Nuke,” *Japan Digest*, September 16, 2003.

¹⁴ “Abe Vows To Seek Unilateral Sanctions Against N. Korea in Diet,” *Japan Digest*, November 24, 2003.

and nuclear programs. In May 2003, a North Korean defector who once worked as a scientist in Pyongyang's missile program testified to a Senate Governmental Affairs Committee hearing that "over 90 percent" of the parts for North Korea's missiles are smuggled aboard passenger ships by the Chosen Soren, the pro-North Korean Association inside Japan.¹⁵ In April 2003, Japanese authorities filed criminal charges against Meishin, a trading company run by an ethnic Korean resident, that allegedly tried to ship to North Korea devices that could be used to build weapons of mass destruction. One shipment of electronic power control devices from Meishin was seized by Hong Kong customs officials at Japan's request. The shipment reportedly was bound for Thailand, and from there was to be sent to North Korea.¹⁶

Like most Japanese leaders, however, Koizumi has equivocated on the subject of taking more coercive measures against North Korea, such as economic sanctions, absent an escalation of the situation by Pyongyang. Japan worries that an outbreak of military hostilities could lead North Korea to launch long or medium range missiles at Japan — including U.S. bases. The prospect of a collapse of the Kim Jong-il regime also worries Japanese leaders because of the potential creation of a massive outflow of refugees. In part for these reasons, some analysts believe that Tokyo's policy toward Pyongyang might soften if the two sides were able to reach an agreement on the abduction issue. Some Japanese leaders favor the idea of delinking the kidnapping issue from the other outstanding issues.¹⁷

North Korea's response to Japan's toughened policy often has appeared contradictory. On the one hand, it periodically has increased the volume and intensity of its rhetorical attacks against Japan, for a time it opposed Japan's inclusion in the second round of six-party talks that are expected to be held in December 2003, and has insisted that the abduction issue not be included in the talks' agenda. On the other hand, diplomats from Pyongyang and Tokyo reportedly held several secret talks in the summer of 2003, in which they focused on resolving the abduction issue. Both sets of initiatives are likely aimed at diminishing Japan's influence over the nuclear talks.

The Kidnapping Issue

For most Japanese, the most important issue in dealing with North Korea is the status of Japanese citizens kidnapped or thought to have been kidnapped by North Korean agents. Japanese politicians from all parties, and media outlets from across the ideological spectrum have warned the Koizumi government not to proceed with normalization without first making more progress on the abduction issue. Relatives of the alleged kidnapping victims have formed support groups that have successfully

¹⁵ May 20, 2003 Hearing, "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection," Senate Governmental Affairs Committee, Financial Management, the Budget, and International Security Subcommittee.

¹⁶ Sebastian Moffett, *et. al.*, "Japan Suspects Firm Has Ties With Pyongyang," *Asian Wall Street Journal*, May 13, 2003.

¹⁷ "Pyongyang Offered To Hand Over Five Abductee Children; Tokyo At A Loss," *Japan Digest*, August 1, 2003.

attracted much attention in the Japanese media, and have secured audiences with influential Japanese and U.S. officials. For years, North Korea denied any involvement in the disappearance of any Japanese, whom the North Koreans insisted on referring to as “missing persons” rather than “abductees.” It was only after North Korea indicated via back-channel negotiations that it was willing to make concessions on this issue that Koizumi agreed in the summer of 2002 to travel to North Korea.

Since the late 1990s, Japanese leaders have pressed the United States to support the Japanese position on the kidnapping issue, a goal they achieved in late 2000, when then-Secretary of State Madeleine Albright raised the issue during her visit to Pyongyang. During Prime Minister Koizumi’s visit to Crawford in May 2003, President Bush pledged to continue pressing for a resolution of the abduction issue in the multilateral talks, a position reaffirmed by the State Department in November 2003.¹⁸ China and South Korea — key participants in the six-party talks — are believed to oppose discussion of the issue in the six-party talks.

At the Koizumi-Kim summit, Kim admitted that North Korea’s security service abducted 13 Japanese from Japan and Europe from 1977-1982. Kim apologized to Koizumi for the kidnappings, which he attributed to overzealous individuals in North Korea’s security services, and pledged verbally and in the two leaders’ joint declaration that they would not occur again. Kim disavowed any prior knowledge of the kidnappings, and said the responsible individuals had been punished. Most of the 13 were teenagers or in their early 20s when they were abducted to North Korea. Some were used in training espionage agents in Japanese language and customs. Only five of the thirteen are alive, according to the North Koreans, and during the summit Kim pledged that they could return to Japan, if they wished. A Japanese delegation on a subsequent fact-finding visit to North Korea was told that the remains of all but one of the dead were unavailable.

If Kim Jong-il had hoped his admission and apology would put the kidnapping matter to rest, he was mistaken. Although a majority of Japanese supported the reopening of normalization talks, the Japanese public was shocked that so many of the kidnappees had died, and demands for a full accounting quickly arose, particularly among relatives of the kidnapped and conservative groups in the LDP. Each subsequent revelation has only produced more questions, outrage, and political pressure to obtain more information from North Korea on the abductions, which Koizumi has described as “act[s] of terrorism.”¹⁹

Essentially, there are three difficulties to resolving the abduction issue. First, Japan has demanded that North Korea allow the nine immediate family members of the thirteen confirmed abductees — particularly the five still alive who arrived in Japan — to travel to Japan. A complicating factor is that Charles Jenkins, the husband of abductee Hitomi Soga, is a former U.S. Army sergeant who defected to

¹⁸ “Kelly Okays Tokyo’s Plan To Bring Up Abduction Issue At Six-way Talks,” *Japan Digest*, November 18, 2003.

¹⁹ “Prime Minister calls abductions for first time ‘acts of terrorism’,” *Sankei Shimbun*, June 6, 2003.

North Korea in 1965 while being stationed along the demilitarized zone separating the two Koreas. Interviewed in Pyongyang, where he lives with his and Soga's two daughters, Jenkins has said that he fears being arrested by the United States if he travels to Japan. In December 2002, Japanese Foreign Minister Yoriko Kawaguchi Monday reportedly asked U.S. Secretary of State Colin Powell and Secretary of Defense Donald Rumsfeld not to prosecute Jenkins if he comes to Japan. Reportedly, the U.S. government has declined to give any assurances to Japan.²⁰

Second, there are reports that some of the eight Japanese declared to be dead by North Korea are still alive. These suspicions were heightened when Japanese forensic specialists determined that the one set of remains given by North Korea were not those of the 43-year-old Kaoru Matsuki, as Pyongyang claimed. Third, many family members and support groups have raised questions about North Korean agents' involvement in the cases of nearly 100 other missing Japanese who disappeared under mysterious circumstances. During the August 2003 six-party talks in Beijing, the Japanese delegation reportedly asked North Korea to account for ten other individuals allegedly kidnapped by DPRK agents.

Meanwhile, North Korea's state-run Korean Central News Agency has warned Japanese against making "a disproportionate furor" over the abductions.²¹ In October 2003, Pak Ryong Yon, deputy chief of the North Korean Foreign Ministry's Asian bureau, said that the kidnapping issue "has been settled," and that the family members would not be allowed to travel to Japan any time soon.²²

Some U.S. observers have expressed surprise over Japan's apparent willingness to allow the fate of a relatively small number of its citizens to interfere with achieving a major foreign policy goal. Two points are noteworthy in that regard. First, the kidnappings have become an extremely sensitive political issue in Japan. Years of effort by the relatives of Japanese actually and allegedly kidnapped by North Korea have successfully focused the attention of the media on the circumstances of the cases, and have won the support of Japanese from across the ideological spectrum.

Second, Japan is not unique in altering its foreign policy due to concerns about the safety of its citizens held in captivity by foreigners. In the 1980s, for instance, Reagan Administration officials sold arms to Iran to secure the release of American hostages, going against both law and the Administration's broad policy toward Iran. In 1996, Evan Hunziker, a mentally unstable 26-year-old American swam into North Korea, where he was charged with espionage. Hunziker's plight became a major issue in US-DPRK relations, holding up sensitive policy initiatives until he was released. Neither of these cases involved the abduction of American citizens from U.S. soil by foreign agents.

²⁰ "Japan's Foreign Minister Kawaguchi Asks US Not To Prosecute Jenkins as Deserter," *Jiji Press*, December 17, 2002.

²¹ "N. Korea warns 'disproportionate furor' in Japan," *Kyodo*, September 26, 2002.

²² "N. Korea Dismisses Hope Kin of Abductees Come to Japan Early," *Kyodo World Service* September 30, 2003.

An Economic Assistance Package

In their joint September 2002 statement, Koizumi and Kim agreed that Japan would provide North Korea with an “economic cooperation” package in recognition of the “tremendous damage and suffering” Japan inflicted during its colonial rule of Korea from 1910-1945. The size and form of the package were to have been negotiated as part of the two countries’ normalization talks set to begin in late October 2002. Using the 1965 Japan-South Korean normalization agreement as a model, Koizumi agreed that the assistance package would consist of grants, low-interest long term loans, humanitarian assistance, and financing credit for private firms. In their joint statement, Koizumi expressed a “deep remorse and heartfelt apology” for Korea’s colonization. Significantly, the agreement stipulates that the economic assistance will begin only after relations are normalized.

Accepting this outline for an economic assistance package was a significant shift for North Korea. Previously, Pyongyang had demanded that the package be labeled as “reparations,” or “compensation” and in November 2000 had flatly rejected Japan’s formal offer of “economic assistance.” At the summit, North Korea also dropped its insistence that Japan issue a more formal, legally binding apology from the Japanese emperor and/or prime minister. Finally, by agreeing to link the aid package to the damage from the colonial era, North Korea also firmly backed away from its periodic insistence that Japan provide compensation for harms allegedly inflicted since 1945.

Should the larger issues of North Korea’s nuclear program and the abductees be resolved, the size of Japan’s economic package is likely to be the subject of considerable debate between the two sides. As detailed in the appendix of this report, estimates of the present value of the 1965 Japan-ROK settlement vary widely, from as low as \$3.4 billion to as high as \$20 billion. According to Japanese North Korea-watchers, no consensus has been reached in Tokyo on Japan’s bottom line, but media outlets have speculated that the final sum will be at the upper end of the \$5 billion - \$10 billion range.²³ Japanese officials have not denied these reports. It is possible that Japanese negotiators will try to obtain restitution of the ¥80 billion or so (about \$667 million at \$1 = ¥120) that North Korean enterprises owe Japanese banks from deals carried out in the 1970s and 1980s. In private conversations, Japanese officials say it is more likely they will seek to settle these claims through an internationally-mediated process.²⁴

A major concern associated with Japan’s possible financial assistance package is fungibility. The massive size of Japanese aid relative to the North Korean economy — \$10 billion is roughly half North Korea’s estimated total output (gross domestic product) each year — raises fears that it will help to sustain the Kim Jong-il regime without inducing any behavioral changes.²⁵ There are concerns that Japanese

²³ See, for instance, *Tokyo Shimbun*, October 26, 2000.

²⁴ Author’s conversations with Japanese officials and North Korea experts, 2002 and 2003.

²⁵ The U.S. Central Intelligence Agency estimates that North Korea’s gross domestic product (continued...)

financial assistance could directly or indirectly finance military modernization, for instance by raising North Korea's overall economic wealth, by freeing up budgetary resources to be redirected toward the military, and/or by improving the country's infrastructure such as roads, railways and communications networks.²⁶ This issue now appears to hinge on the outcome of the six-party talks. Should these succeed in resolving the key security issues, the concerns about fungibility could become less relevant.

North Korean Maritime Spy and Smuggling Operations

In 2001 and 2002, Tokyo became increasingly alarmed by incursions of espionage and drug-running ships thought to be of North Korean origin into Japanese waters.²⁷ According to one estimate in the fall of 2002, such ships made the crossing from their base in North Korea between five and twelve times a year, often releasing smaller boats that in turn launched rubber rafts to ferry agents to and from the Japanese coast. The agents' missions reportedly included gathering information about the outside world, smuggling money and goods, swaying influential opinion-makers in Japan regarding North Korea, recruiting ethnic Korean residents in Japan to gather information about South Korea, conducting surveillance on U.S. and Japanese military installations, and occasionally identifying solitary Japanese for kidnapping. The agents reportedly relied heavily upon the roughly 200,000 Korean residents of Japan who identify themselves as North Korean citizens, often using threats against family members in North Korea as a means of coercion. North Korea is thought to be a major supplier of methamphetamines on the Japanese market, which are believed to be sold to Japanese organized crime syndicates.²⁸

In December 2001, Japanese coast guard patrol boats chased and exchanged fire with one suspected North Korean spy ship, the first time since World War II Japanese vessels had fired more than a warning shot upon an intruding vessel. The confrontation ended when the mystery boat sank inside China's exclusive economic zone. It is unclear whether the boat was sunk by Japanese fire or by a self-detonated charge. Following the incident, the Koizumi government suspended food aid shipments, which had been resumed only in October 2001 in hopes of obtaining progress on the kidnapping issue. In the summer of 2002, after protracted negotiations with Beijing, Japanese salvage teams raised the ship, confirming that it

²⁵ (...continued)

(GDP) was approximately \$22 billion in 2002. The CIA's GDP figures are derived from purchasing power parity (PPP) calculations, meaning they are designed to show the quantity of goods and services that can be purchased *in the target country*. The CIA, *World Factbook 2002*.

²⁶ For more on the fungibility argument, see Marcus Noland, "North Korea's External Economic Relations," February 2001, <http://www.iie.com/papers/asia.htm>

²⁷ For more on allegations of North Korea's drug trafficking activities, see CRS Report RS20051, *North Korean Drug Trafficking: Allegations and Issues for Congress*, by Raphael Perl.

²⁸ *Washington Post*, "N. Korea's Secret Mission Details Emerge of Long-Term Spy Project to Gain Influence in Japan," October 13, 2002.

was of North Korean origin, heavily armed, and was a mother ship to three smaller craft that presumably were designed for beach landings and other close-to-shore activities. Coast guard personnel participating in the chase reported seeing North Korean agents throwing large bags overboard, raising suspicions that the ships were engaged in drug-smuggling activities.²⁹

Until Koizumi's trip to Pyongyang, North Korea had denied any connection to the suspicious ships. At the summit, Koizumi said that Kim acknowledged that "certain military officers" had sent out ships into Japanese waters, and pledged that such actions would not occur again.³⁰ The Japanese daily *Asahi Shimbun* has published a detailed report that the 1,500-person 727 Liaison Office, the North Korean agency thought to be responsible for dispatching spy ships to Japan, was disbanded in the summer of 2002.³¹ If true, the move may indicate a recognition by Pyongyang that its ship movements are well-observed by U.S. reconnaissance satellites. This information is routinely shared with Japanese and South Korean defense officials.

North Korean Missiles

Aside from Kim Jong-il's admission on the abductees, the most tangible result of the Koizumi-Kim summit was Kim's pledge to extend North Korea's self-imposed moratorium on missile launches beyond its 2003, though some security specialists argue that the value of the moratorium is severely limited because Iran and Pakistan are thought to act as North Korea's surrogates in testing missiles.³² While the U.S. concern about the DPRK's missile programs centers around proliferation, Japan is focused on the direct threat. North Korea's missile program has been high on Japan's agenda ever since Pyongyang's August 1998 Taepodong launch, though for the moment Tokyo appears to believe that priority should be given to the nuclear issue. Japanese security officials are most concerned about the North's cache of up to 100 medium-range (600-900 miles) Nodong missiles that are capable of reaching all of Japan, including Okinawa. U.S. intelligence officials reportedly believe that North Korea has developed or is developing new long-range and medium-range missiles, both of which would be capable of reaching all of Japan.³³

²⁹ The ship's arsenal included rocket launchers, machine guns, an antiaircraft gun, and two antiaircraft missile launchers. Behind forward-opening double doors at the stern, investigators found a 33-foot-long boat, an inflatable black rubber raft with outboard motor, and a one-man underwater scooter. "Japan Says North Korea Boat In Sea Battle Was A Spy Ship," *New York Times*, October 5, 2002.

³⁰ NHK Television, "Koizumi Issues Statement After Historic Summit With DPRK's Kim Chong-il," September 17, 2002, as translated by FBIS, JPP20020917000132.

³¹ *Asahi Shimbun*, "Pyongyang Shuts Spy Ship Section," October 4, 2002.

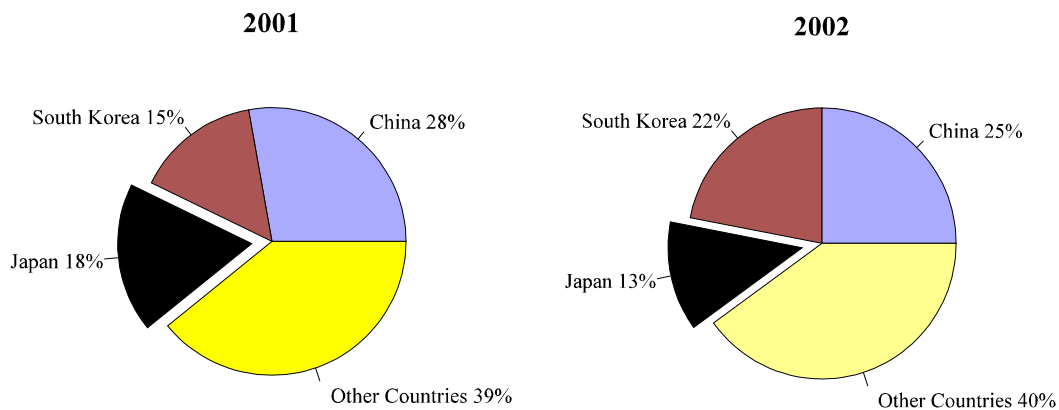
³² The Pyongyang Declaration reads, "According to the spirit of this declaration, the DPRK expressed its intention to postpone missile launches until after 2003." For more on the North Korea-Pakistan connection, see CRS Report RL31900, *Weapons of Mass Destruction: Trade Between North Korea and Pakistan*, by Sharon Squassoni.

³³ Bill Gertz, "North Korea To Display New Missiles," *Washington Times*, September 9, (continued...)

Japan - North Korea Economic Relations

Japan has long been one of North Korea's largest economic partners, though trade and financial flows have declined in recent years. After the Soviet Union ended its support for Pyongyang, Japan emerged as North Korea's second-largest trading partner (after China), a position it held until it was displaced by South Korea in 2002. (See **Figure 1**.)

Figure 1. Japan's Relative Share of North Korea's Trade, 2001-2002



Sources: KOTRA (Korea Trade Investment Promotion Agency) and South Korean Ministry of Unification.³⁴

Notes: North Korea's total trade was approximately \$2.6 billion in 2001 and about \$2.9 billion in 2002. The figures include foreign countries' assistance to North Korea, which is recorded as North Korean imports.

North Korea's main export items to Japan are clams, men's suits, mushrooms, and coal. Japan's primary exports to North Korea are cars, electrical components, woolen fabrics, and general machinery. Many of the electronics components and clothing materials that are sent to North Korea are assembled into finished products and re-exported to the big discount stores that have sprung up throughout Japan over the past decade.³⁵ Additionally, North Korea is in default on over ¥80 billion (about \$667 million at \$1 = ¥120) in loans from Japanese banks, many of which have stopped handling transfers to North Korea.

³³ (...continued)
2003.

³⁴ For an analysis of recent data on North Korea's trade, see Aidan Foster-Carter, "Pyongyang Watch: Seoul's Secret Success," *Asia Times Online*, November 19, 2003.

³⁵ "Intelligence," *Far Eastern Economic Review*, April 17, 2003.

Below, **Table 1** shows that bilateral trade has declined significantly since the 1980s, primarily due to the severe deterioration of North Korea's economy that began with the withdrawal of Soviet and Chinese support in the late 1980s and early 1990s. By 2000, the real value of North Korea's exports to Japan had fallen to one-third of 1985 levels, and Japanese exports to North Korea had plummeted to one-sixth the level of 1980. That said, the shrinking of the North Korea economy may mean that trade with Japan — particularly exports, which generate hard currency — is relatively more important to North Korea today than was true in the 1980s.

Table 1. Japan-North Korea Trade, 1980-2002
(billions of yen)

	Nominal Figures			Real figures ^a (1995 = base year)			¥/\$ Rate
	Japanese Exports to DPRK	DPRK Exports to Japan	Total Trade	Japanese Exports to DPRK	DPRK Exports to Japan	Total Trade	
1980	85	41	126	129	90	219	204
1985	59	43	102	88	90	178	201
1990	25	43	68	31	59	90	135
1995	24	32	56	24	32	56	103
2000	22	28	50	20	30	50	115
2001	18 ^b	27	45 ^b	17 ^b	30	48 ^b	131
2002	17	29	46	—	—	—	119
1-9/02	12	23	35	—	—	—	—
1-9/03	8	15	23	—	—	—	—

Source: Source: Japan Statistical Yearbook 2003; 2002 and 2003 figures from Japan Customs.

- a. Real figures, which adjust for price changes, are calculated using the Bank of Japan's export and import indices.
- b. 2001 Japanese export figure does not include the 499,999 MT, worth over Y112 billion (\$900 million), of husked brown rice that Japan sent to North Korea as food aid.

Trade Has Fallen Sharply in 2003

As shown by the bottom portion of Table 1, which compares trade figures for the first nine months of 2002 and 2003, trade in 2003 has declined by approximately one-third since 2002. The decline was particularly sharp during the second and third quarters, when Japan imposed its more rigorous inspection regime on North Korean shipping. From January through April 2003, trade fell by 17% compared with the same period in 2002. From May to September, year-on-year trade volume dropped by 43%. What is particularly surprising about these figures is that trade has fallen, not increased, since North Korea resumed the Mangyongbong ferry service that had been suspended from January to July 2003. The ferry normally makes one or two runs a month from North Korea to the port of Niigata, Japan.

Remittances and *Chosen Soren*

Much of Japan's trade with North Korea is said to be facilitated by the *Chosen Soren* (*Chochongryun* in Korean), the organization of pro-Pyongyang ethnic Koreans who are permanent residents of Japan.³⁶ *Chosen Soren* also is known to organize remittances to North Korea. Though several sources have estimated the flows to be on the order of hundreds or even billions of dollars per year, more recent analysis has pointed out the implausibility of these estimates, instead placing the actual amounts below \$100 million per year.³⁷ Moreover, the remittances are believed to have declined to the \$30 million level since the early 1990s, following the bursting of Japan's economic "bubble," a development that not only presumably reduced the personal wealth of pro-Pyongyang Koreans in Japan, but also sent many of *Chosen Soren*'s credit unions into bankruptcy.³⁸ Several of these credit unions have been taken over by the Japanese government, a move that sparked controversy in Japan as bilateral relations deteriorated, particularly when revelations surfaced that some credit unions had funneled money to the North Korean government. In 2001, North Korea halted its investigations into the kidnapping issue after the Japanese government launched an investigation of the finances of *Chosen Soren* and its associated credit unions.³⁹

The takeovers marked a break from the Japanese political establishment's previously tolerance of *Chosen Soren*. Indeed, many leaders of Japan's ruling Liberal Democratic Party (LDP) had warm ties with the organization, exempting it from paying local taxes, for instance. Some have argued that *Chosen Soren* members provided a link between the LDP and *yakuza* organized crime syndicates.⁴⁰

Food Aid

Since the mid-1990s, Japan has sent 766,000 MT of food aid to North Korea to help alleviate the effects of severe food shortages. About two-thirds (500,000 MT) was donated in 2000, and the remainder was given in 1995 and 1996. Almost all of Japan's aid has been channeled through the UN World Food Program. Generally, Tokyo has linked food shipments to progress in Japan-DPRK relations. Food shipments were suspended following North Korea's 1998 Taepodong launch,

³⁶ For more on the Chosen Soren, see CRS Report RL32137, *North Korean Supporters in Japan: Issues for U.S. Policy*, by Emma Chanlett-Avery.

³⁷ Nicholas Eberstadt, "Financial Transfers from Japan to North Korea," *Asian Survey*, Vol. XXXVI, No. 5, May 1996; Marcus Noland, *Avoiding the Apocalypse*, (Washington, DC: Institute for International Economics), p. 132.

³⁸ See CRS Report RL32137, *North Korean Supporters in Japan: Issues for U.S. Policy*, by Emma Chanlett-Avery.

³⁹ Doug Struck, "Japanese Bailouts Benefitted N. Korea, Officials Say," *Washington Post*, December 8, 2001; and "North Korea Must Continue to Search for Abducted Persons," *Nihon Keizai Shimbun*, December 21, 2001, translated by American Embassy, Tokyo, Public Affairs Section, Office of Translation and Media Analysis.

⁴⁰ Mindy Kotler, "Interdiction May Not Just Modify North Korea's Behavior," Policy Forum Online, The Nautilus Institute. June 13, 2003.

resumed in 2001 when progress on the kidnapping issue appeared possible, then were suspended again in December 2001 following the North Korean spy incident. Since 1995, the United States has provided over 1.7 million MT of food assistance to North Korea. South Korea has sent about 1.5 million MT.

Appendix: Japan's 1965 Economic Aid Package to South Korea

On June 22, 1965, Japan and South Korea signed a Treaty of Basic Relations, normalizing relations between the two countries for the first time since Japan annexed the Korean peninsula in 1910. As part of the final settlement, Japan agreed to provide South Korea with a total sum of \$800 million⁴¹, which consisted of: a) an outright grant of \$300 million, to be distributed over a 10-year period; b) a \$200 million loan to be distributed over a 10-year period and repaid over 20 years at 3.5% interest; c) \$300 million in private credits over 10 years from Japanese banks and financial institutions.

Prior to the 1965 agreement, the normalization negotiations between Tokyo and Seoul had dragged on for over fourteen years, and had triggered strong emotions in both countries. Throughout the 1950s, South Korean President Syngman Rhee adopted a confrontational approach toward Japan, and successive Japanese governments showed little enthusiasm for accepting Rhee's demands that Japan apologize and compensate for its colonization of the Korean peninsula.

Relations warmed dramatically following a military coup in 1961, led by general Park Chung-Hee, who established rapid industrialization — following the Japanese model of export-led development — as his country's paramount economic goal. To this end, Park was eager for Japanese economic assistance, and adopted conciliatory postures on most outstanding issues. The approximate size and composition of the compensation package was one of the first issues to be resolved following Park's coup. The South Korean side, which at one point had asked for as much as \$2 billion, lowered its demands to \$700 million in grant aid before agreeing to the \$800 million total package. Reportedly, until late 1962, Japan had offered only \$70 million in total compensation, a figure the U.S. State Department at the time described as “unrealistically low.”⁴² Furthermore, the Treaty on Basic Relations did not contain any reference to a Japanese apology. Instead, Japan's reparations payment was characterized as “economic assistance.”

The terms of the Treaty enraged many South Koreans. Charging that the agreement amounted to a “sellout,” Korea's opposition parties boycotted the ratification process in the National Assembly. Violent anti-government protests erupted throughout the country, and the Park government imposed martial law to suppress anti-government protests around the country, the second time in less than a year troops were mobilized to curtail protests against the government's Japan policy. The agreement also faced strong but eventually ineffectual opposition in Japan, where the Socialist Party — which had friendly ties with North Korea —

⁴¹ According to the South Korean Ministry of Foreign Affairs and Trade, the aid was distributed in dollars, not yen.

⁴² *Foreign Relations of the United States, 1961-1963, Volume XXII (Northeast Asia)*, 567-69; Chong-Sik Lee, *Japan and Korea: The Political Dimension* (Stanford, CA: Hoover Institution Press, 1985), 50.

argued that the Treaty would impede Korean unification and was a prelude to an anti-communist alliance in Asia.⁴³

Estimating the Present Value of the 1965 Settlement

There are a wide range of estimates for the present value of the 1965 Japan-South Korea settlement. At the low end is a method that adjusts for inflation in the U.S. economy, yielding a value of approximately \$3.4 billion in 1999 dollars.⁴⁴ At the high end is a calculation that produces a value of \$20 billion in today's dollars by adjusting for inflation in the Japanese economy, appreciation of the yen, accrued interest, and differences in population in North and South Korea.⁴⁵ One methodology that adjusts for Japanese inflation since 1965 and for inter-Korean population differences yields a present value of ¥418 billion (\$3.8 billion using an exchange rate of ¥110 = \$1). If the same disbursement formula used in 1965 were applied today, the ¥418 billion would break out as ¥157 billion (\$1.42 billion) in outright grants, ¥104 billion (\$950 million) in concessionary government loans, and ¥157 billion (\$1.42 billion) in private credits.⁴⁶

The above figures should be interpreted as rough approximations. Computing the present value of a past sum is an inherently inexact task. When more than one country is involved, the calculation is made even less precise by long-term changes and short-term fluctuations in exchange rates. Additionally, a calculation might also take into account differences between Japan's occupation of North Korea and South Korea, including the extent of the claims for damage by the occupation authorities. Finally, the adjustments are made for the total figure of \$800 million, even though

⁴³ Lee, *Japan and Korea*, 55.

⁴⁴ This method uses the U.S. gross domestic product (GDP) deflator to adjust for inflation between 1965 and 1999. The GDP deflator is the ratio of nominal GDP in a given year to real GDP in that same year. In 1999 the GDP deflator was 104.37 (1996 = 100), 4.35 times the 1965 deflator of 23.98. Thus, \$800 million in 1965 dollars would be worth approximately \$3.4 billion in 1999 dollars.

⁴⁵ Marcus Noland, "The Economics of Korean Unification," prepared for *Foresight Magazine*, February 2000. For his accrued interest adjustment, Noland assumes an annual rate of return of 5%. Noland acknowledges that the Japanese side is likely to reject the notion of adjusting for accrued interest, on the grounds that North Korea's intransigence is to blame for the perennially stalemated normalization talks. March 2000 conversation between Marcus Noland and the author. According to the U.S. Census Bureau, in 1965, North Korea's population was approximately 11.9 million, approximately 40% the size of South Korea's population of 28.7 million in the same year. In 1999, North Korea's population was estimated to be 21.4 million, around 45% the South Korean total of 47 million.

⁴⁶ This method uses the Japanese GDP deflator to adjust for inflation between 1965 and 1999. In 1999 the Japanese GDP deflator was approximately 3.5 times the size of the deflator in 1965. Using this figure, the 1965 compensation package of ¥288 billion would be worth roughly ¥1.01 trillion today (\$9.2 billion, at ¥110 = \$1). To adjust for population differences, multiply ¥1.01 trillion by 0.41, which is the ratio of North Korea's 1965 population (11.9 million) to South Korea's 1965 population (28.7 million). The result is ¥418 billion (\$3.8 billion).

the actual value of Japan's compensation package was lower: Over 60% (\$500 million) of the settlement was disbursed as government loans and private credits, which are less valuable to the recipient than outright grants. Thus, the calculations presented provide only a preliminary comparative baseline, with many qualifications.

On the other hand, the 1965 settlement occurred before the revelation that Japan had forcibly used tens of thousands of Korean "comfort women" to provide sexual services to Japanese soldiers during World War II. North Korea periodically has insisted that Japan's compensation take into account the comfort women's plight.